



Established 1853

AR39



CANADA

The Company is a specialty retailer of apparel and footwear. Men's and boys' wear is sold through licensed departments in each of the 119 Woolco Department Stores in Canada. Men's wear is sold through 141 Jack Fraser, 7 Jacks, 51 Elk's, 21 George Richards Kingsize Clothes stores and 7 Apparel Clearance Centres featuring off-price merchandise. Junior Ladies' sportswear is sold through 108 Loft Departments and 29 Sideeffects stores. Fashion jeans and young contemporary

casual wear is sold through 46 Dapper Dan shops. Footwear is sold in 229 shoe stores under the Maher, J. Reid, Copp, Julia, Bonita and Licensed Departments. The Company also owns a homefurnishings company which manufactures and wholesales bedroom and bathroom decorative products.

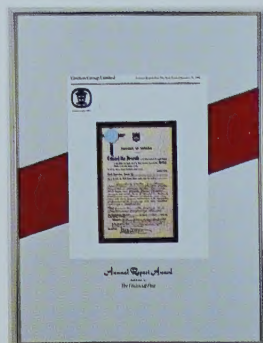
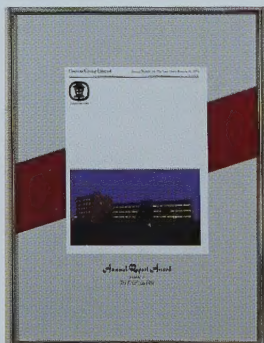
UNITED STATES

Through subsidiaries, the Company operates 80 ladies' wear stores in 13 midwest states and 25 ladies' shoe stores in 4 states.

The Grafton Medal, struck in 1928 to commemorate the Company's 75th anniversary, carries the Grafton family motto "Uprightness and Honesty", a tradition that continues to be maintained.



For the fourth time, the Grafton Group won the Financial Post Gold Award for the Company's 1981 Annual Report, with previous recognition in 1977, 1979 and 1980.



Contents

1	Financial Highlights	19	Consolidated Balance Sheet as at January 31, 1982
2	Company Attitudes	20	Consolidated Statement of Changes in Financial Position
3	Directors' Report to the Shareholders	21	Notes to Consolidated Financial Statements
4	The 128th Year in Review	28	Auditors' Report
5	Operating Review/Apparel Division	29	Statistical Summary
	Licensed Departments in Woolco	30	Historical Operating Review
	Elks Inc.	32	Historical Balance Sheets
9	Company Stores Division	34	Store Statistics
10	Seifert's	35	Information Graphs
11	Footwear Division	36	Directors Officers and Executives
12	Homefurnishings Division		
13	Financial Commentary		
18	Consolidated Statements of Income and Retained Earnings		



HEAD OFFICE

9 Sunlight Park Road, Toronto M4M 3G1
(416) 461-9411 Telex (06) 217727

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10:00 a.m., May 17, 1982,
in Toronto in The Westin Hotel, Toronto III Ballroom, 145 Richmond Street West.

Within eight months death claimed the two senior executives of the Grafton Group: Brigadier General W. Preston Gilbride, Chairman, on June 16, 1981 and G. Richard Chater, President, on February 11, 1982. Their passing was a profound loss not only to the Company but also to their wide circle of friends and the broader professional, business and educational communities.



G. Richard Chater, LL.D

The growth of the Grafton Group is directly attributable to Rich Chater. He was the driving force of this organization which grew in 20 years from 11 stores doing \$3 million in sales to a multi-national chain of 863 stores with sales of \$368 million.

A man of intellect, he envisioned the future and planned wisely for it. Throughout his distinguished career, his relationships and dealings were marked by high standards, integrity and fairness. Beneath a somewhat stern exterior, he was considerate and warm-hearted, contributing generously of his considerable talents to many worthwhile causes and giving wise counsel and assistance to both contemporaries and younger people. At age 54, Richard seemed poised on the threshold of even greater accomplishments, but this was not to be. However, the people whom he encouraged and inspired will expand upon the sure foundations he laid.



Brigadier General W. Preston Gilbride
C.B.E., D.S.O., E.D., LL.D.

Brigadier General Gilbride was a man of many accomplishments and wide-ranging interests. He received numerous decorations for distinguished military service in World War II. Going overseas with the first troop convoy he served in several theatres of war, returning to Canada at the conclusion of hostilities as Deputy Commander Canadian Army Pacific Force.

In business, he rose from agent to become chief executive of a major life insurance group serving on the board of that company and many others.

He was prominent in the arts and in community affairs holding important administrative posts while spearheading major fund raising ventures.

A keen horseman and a colourful figure at the track, Brigadier Gilbride owned and bred horses which achieved success in important races in Canada and the United States.

	Year ended January 31,			% Change	
	1982	1981	1980	1982 over 1981	1982 over 1980
	Omitting 000's				
TOTAL SALES	\$368,345	\$316,259	\$240,694	+ 16.5	+ 53.0
Retail Divisions					
Apparel					
Canada					
Stores	118,407	82,585	53,135	+ 43.3	+ 122.8
Licensed Woolco Departments	112,300	112,760	103,700	- .4	+ 8.3
	230,707	195,345	156,835	+ 18.1	+ 47.1
United States	49,350	39,981	17,500	+ 23.4	+ 182.0
	280,057	235,326	174,335	+ 19.0	+ 60.6
Footwear					
Canada	59,588	55,507	48,603	+ 7.4	+ 22.6
United States	8,020	5,769	1,199	+ 39.0	+ 568.9
	67,608	61,276	49,802	+ 10.3	+ 35.8
	347,665	296,602	224,137	+ 17.2	+ 55.1
Homefurnishings Division	20,680	19,657	16,557	+ 5.2	+ 24.9
Income from operations before depreciation, interest and amortization	40,312	41,843	34,970	- 3.7	+ 15.3
Income from investments and interest	3,640	6,160	3,314	- 41.0	+ 9.8
Depreciation and interest expense	18,091	12,815	6,132	+ 41.2	+ 195.0
Income before taxes	25,005	34,811	31,815	- 28.2	- 21.4
NET INCOME FOR YEAR BEFORE EXTRAORDINARY ITEM	14,346	20,088	18,210	- 28.6	- 21.2
NET INCOME FOR YEAR AFTER EXTRAORDINARY ITEM	8,948	20,088	18,210	- 55.5	- 50.9
Earnings per class A and common shares before extraordinary item	2.02	2.92	2.61	- 30.8	- 22.6
Earnings per class A and common shares after extraordinary item	1.16	2.92	2.61	- 60.3	- 55.6
Dividends paid					
Preference shares	3.00	3.00	1.50		
Class A and common shares	.54	.46	.20		
Common (old)			.38		
Working Capital	72,020	65,420	69,759	+ 10.1	+ 3.2
Shareholders' equity	92,637	89,277	74,580	+ 3.8	+ 24.2
Average number of class A and common shares outstanding	6,246,340	6,246,340	6,246,340		
Percentage of net income to sales before extraordinary item	3.89	6.35	7.57		
Percentage of net income to sales after extraordinary item	2.43				
Effective tax rate percentage	43.8	42.0	42.5		
Current ratio	2.1:1	1.9:1	2.4:1		
Earnings as a percentage of shareholders equity (year end) before extraordinary item	15.5	22.5	24.4		
Earnings as a percentage of shareholders equity (year end) after extraordinary item	9.7				
Dividends as a percentage of net income before extraordinary item	35.9	23.4	18.5		
Dividends as a percentage of net income after extraordinary item	57.5				

Conflict of Interest

The Company has in effect a formal Conflict of Interest Policy covering areas of concern in respect to the conduct of directors, officers and senior employees and remains confident that these people have and will continue to conduct themselves in an ethical manner.

FACTS RELATING TO UNDISCLOSED OR UNRECORDED LIABILITIES

Pension

The Company has no liability in respect to past or current service benefits.

Commitments and Contingencies

With respect to lease commitments, capital and operating, refer to note 7 on page 25.

In regard to legal matters, refer to note 12 on page 28.

Concerning our relationship with the F. W. Woolworth Co., Limited, refer to note 10 on page 27.

With respect to related party transactions, refer to note 11 on page 28.

There were no advances or loans to officers or directors (see note 4 on page 23 regarding employee stock purchase plan).

Current Value Accounting

Based on current replacement costs and using our present depreciation rates, the estimated net book value of our leasehold improvements and fixtures is approximately \$2,600,000 in excess of the net book value recorded in the accounts. The extra charge to income, after tax, would be approximately \$300,000 or .5¢ per share if this form of accounting had been in force. The value of the land and buildings on a replacement cost basis owned by Grafton Realty Company, Limited and Maher Inc. has not been taken into account in the calculations and no adjustment has been made for other assets or liabilities.

Foreign Exchange Exposure

In both of the Canadian retail companies, about 17% of all merchandise purchased is denominated in U.S. dollars.

In our manufacturing company, about 63% of purchases of raw materials is denominated in U.S. dollars. At the present time, the Company is not hedged.

The borrowing to fund the United States acquisitions has been in U.S. funds, to minimize the impact of foreign exchange gains or losses. Should the Canadian dollar become closer to par with its U.S. counterpart, earnings will be reduced and will be increased if the reverse should occur.

CORPORATE GOALS IN RESPECT TO EARNINGS AND DIVIDENDS

Earnings

The Company aspires to achieve an average annual compound growth of fully diluted earnings per share of 15% or greater in an environment of average inflation of 10% or less in a viable economic climate.

Dividends

The Company believes a total dividend payout ratio of between 25% and 30% of the previous year's earnings is appropriate over the long term.

OWNERSHIP OF THE COMPANY

Greywinds Investments Limited is owned by W. A. Heaslip, G. A. Reynolds and the Estate of G. R. Chater. Mr. Heaslip has voting control over all shares owned by the Estate of G. R. Chater and is in a position to vote 51% of the common shares, and 39% of the equity shares of Grafton Group Limited.

Other directors and senior officers own approximately 5% of the common shares.

COMMUNITY

The W. Preston Gilbride Research Trust was initiated in conjunction with the Canadian Liver Foundation to fund the visitation of world renowned scientists to Sunnybrook Hospital. The target of \$100,000 was surpassed in April, 1982.

The W. F. James Chair of Studies in the Pure and Applied Sciences at St. Francis Xavier University, Antigonish, Nova Scotia, was instituted in 1980. The response continued during 1981 and is sustained by a fund which is approaching twice the initial target of \$500,000.

Mr. T. E. Topping was Chairman of the Toronto East General Hospital capital fund raising in 1979-1980 and during 1981 the objective of \$2,300,000 was achieved.

It was a difficult year for our group of companies as death claimed our Chairman, W. Preston Gilbride, and our President, G. Richard Chater. They both are sorely missed but the memories of their companionship and leadership are an inspiration for us to collect our strengths and return the company to its traditional levels of achievement. In addition, we had a decline in earnings for the first time in 14 years.

The consolidated earnings of \$14,346,000, before an extraordinary item, is a 28.6% reduction from last year's earnings of \$20,088,000, although consolidated sales increased by 16.5% to \$368,345,000 from \$316,259,000 last year.

Our balance sheet is strong with an increase in working capital to \$72,020,000 with a current ratio of 2.1:1. Shareholders' equity rose to \$92,637,000, being 77% of total liabilities.

We determined to write down the Elks Inc. investment this year as a one-time charge to earnings of \$5,398,000. This company lost \$1,222,000 in 1981 due to slow delivery of merchandise in the early part of the year and unexpectedly high interest charges. The proceeds from a rights issue of \$8,201,000 was used to reduce bank indebtedness and places the company in a better but still undercapitalized position. The equity in Elks after this transaction is less than \$2,000,000 and it will take several years of profitable operation before the company is restored to a healthy financial condition. The progress is somewhat slower than anticipated because of the general economic conditions but a gradual improvement is taking place. Legal actions relating to this acquisition are in progress as outlined in note 12 of the financial statements.

Grafton-Fraser Inc., our largest division with 52.8% of total sales, had an earnings decline of 10.6%.

The downturn was accelerated by the deepening recession during the Fall, with the deterioration felt in all its

divisions. Inventories were higher as sales lagged and margins came under pressure from increased competition. In addition, expenses were up as a percentage of sales.

Mahe Inc. sales accounted for 16.2% of our business. Earnings were reduced by 21.4%. While family shoe sales were strong, there was a dramatic drop in demand in British Columbia due to problems in the paper and forest products industries. Oak-Bay Corporation has not performed up to expectations. Remedial action has been taken with the installing of Mahe warehousing and accounting systems, at considerable initial costs. It will take at least another year for this division to make a profit contribution.

Seifert's has accounted for 13.4% of our sales and has performed well in the U.S. mid-west where the agricultural economy was depressed. The result was that earnings declined by 2.2%.

Toby Industries, as well, was affected by declining sales, and profit fell by 28.3% as department stores drastically reduced purchases in late 1981.

The equity earnings from the Forsyth Company were affected by a slight profit decline which was significantly better than industry averages.

Oil and gas investments continued to prove up additional reserves and discounted values are in excess of our costs. While the cash flow has been negligible in 1981, 1982 appears to be very promising. We were unable to use all of our tax incentives from this investment but they will be available in the future.

Our expansion program was extensive in 1981. We opened 67 clothing stores and 20 shoe stores in Canada, plus 13 clothing and 8 shoe stores in the United States. Due to high rent costs and curtailment of desirable shopping centre openings in Canada, expansion will be limited as we become more selective about store locations. U.S. occupancy costs have

not escalated as sharply and we shall continue our expansion in the mid-west marketing area.

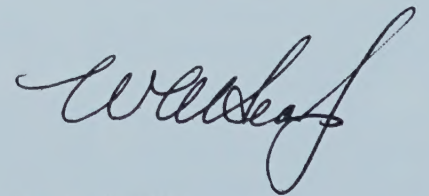
Discussions had been held with the Woolworth World Trade Corp. regarding a partnership agreement to operate the men's and boys' departments in the Woolco Department Stores, and also a partnership in our Canadian specialty apparel stores. After extended negotiations, these discussions were terminated. New negotiations have been commenced dealing only with an orderly transfer of the men's and boys' departments in the Canadian Woolco Department Stores to the F. W. Woolworth Company. At this time, specific terms of the agreement have not been reached. An early settlement of this issue is anticipated.

While the quarterly dividend of .14¢ per share on common and Class A shares and .75¢ on preferred shares exceeds our stated policy of paying 25%-30% of the previous year's earnings, we intend to continue the same quarterly dividends.

It has been a trying year for retailers but the company is strong financially and is positioned to take advantage of an upturn in the economy.

Mr. J. B. Ridley and Mr. S. F. Ross have declined to stand for re-election to the Board of Directors. Both have served the company well over many years. Mr. H. John McDonald, Chairman, Black & McDonald Limited, was elected to the Board on April 5, 1982.

The loyalty of employees, suppliers, customers and associates during the past year has helped the company greatly in these troubled times and we thank them for their support.



W. A. Heaslip
President
April 12, 1982



T. Edward Topping
*Executive Vice President,
 Grafton Group Limited.*
 Born in 1923, Mr. Topping joined the R.C.A.F. from high school where he became a pilot and served overseas. After demobilization in 1946, he joined A. Bradshaw and Son, Limited, also working when possible for Jack Fraser. In 1960, A. Bradshaw purchased Jack Fraser Stores Limited. Mr. Topping was appointed Vice President and General Manager, Jack Fraser Stores Limited in 1963. After the merger of Grafton's and Jack Fraser Stores in 1967, he became a Director and Vice President of Grafton-Fraser Inc. and a Director of Grafton Group Limited. In 1971 he was appointed President of Grafton-Fraser Inc. a position which he relinquished upon being promoted to Executive Vice President of Grafton Group Limited in 1978.

For centuries retailers have consistently blamed weather conditions for poor sales and profits, but in 1981 the weather was scarcely mentioned. Local and worldwide economic conditions, exorbitant interest rates and seemingly uncontrollable inflation all moved to centre stage to replace it.

While sales increases became more elusive, the costs of procuring them escalated at a frightening rate. Increased rentals, municipal taxes, common area recharges, delivery and

utility costs played havoc with profit and loss statements and budgets.

Chain and department stores that previously had competed vigorously for new locations and expanded older malls began to face the truth. While developers offered current market rent plus huge recharges, retailers learned to say "No". Possibly the most important feature of 1981 was the recognition that there was indeed a limit to both sales and costs. Developers no longer had tenants demanding space.

An inordinate amount of time was devoted to the ongoing negotiations with the Woolworth World Trade Corp. relative to 119 Woolco department licenses. After 18 difficult months, the announcement in the March 3, 1982 news release terminated these negotiations which included the planned joint venture in the Company Stores Division in the specialty retail field. An orderly termination of license agreements in all Canadian Woolco stores is being negotiated. We anticipate an early agreement.

Through hard work and cooperation, the joint management team at Elks Inc. has made commendable and encouraging progress. The Dapper Dan division shows great future promise and the transfer of excess Elks floor space to other retail uses has been most successful. Our belief that we

had purchased a viable entity may in fact become a long term reality.

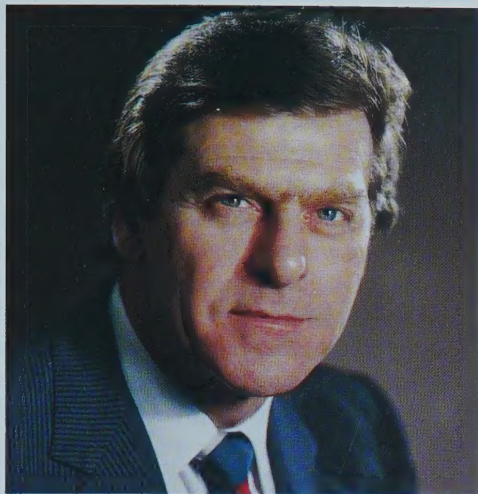
The rapid and successful expansion of our U.S.A. Seifert's chain is having positive effects on our Canadian ladies' wear operations, The Loft and Sideeffects, through cooperation and dialogue. Our buyers and supervisory teams are maturing with more orderly store openings, exciting promotional programmes and improved customer service.

Our people have proven under extremely adverse conditions that they have the potential to produce. While the current year has continued last year's pattern, we are confident that the Grafton Group of companies will make significant progress in the specialty retailing field during the 1980's.

T. E. Topping
 Executive Vice President
 Grafton Group Limited

Sideeffects stores, launched as a new chain in 1979, now have 29 stores in operation specializing in fashions for the contemporary woman.





Arnold L. Lucas
President, Grafton-Fraser Inc.
 Born in 1935, Mr. Lucas joined the Company on a part-time basis in 1947 and commenced working full-time 5 years later. During the next 15 years, he held increasingly responsible positions – Clothing Salesman, Store Manager, Supervisor, Display Manager and Assistant General Manager, Stores. In 1971, he became Vice President, Leased Department Division with overall responsibility for the operation of the Men's and Boys' Wear Departments in Woolco Department Stores and became Senior Vice President, Leased Departments in 1974. In 1978, Mr. Lucas was promoted to President, Grafton-Fraser Inc.

Business of the Company

A national retailer of men's, women's and boys' apparel, Grafton-Fraser Inc. is the Canadian Apparel Division of Grafton Group Limited, with 432 retail units. There were 119 Men's and Boys' Wear Departments in Woolco Department Stores and 313 Company-owned specialty stores which conduct business under 6 different identities.

At year end, the Company Stores Division consisted of 141 Jack Fraser Stores, 7 Jacks young men's shops, 21 George Richards big and tall Men's Wear Stores, 108 Loft women's sports-wear boutiques, 29 Sideeffects women's wear shops and 7 Apparel Clearance Centres.

A record expansion programme was accomplished in 1981 with the opening of 7 Woolco Departments and 55 Company-owned locations. The Company Stores Division opened 24 Men's Wear Stores, 27 Women's Wear units and 4 Apparel Clearance Centres. Twenty-four new stores were opened in Ontario, 22 in Western Canada and 9 in the Maritime Provinces.

Sales and Profits

Total Grafton-Fraser Inc. 1981 sales increased 6.8% to \$194,700,000.

1982 sales were adversely affected by a sales decrease of .4% in the Licensed Departments in Woolco. Licensed Departments' sales were \$112,300,000 and declined in contribution to total Grafton-Fraser Inc. sales to 57.7% from 61.9% in 1981. The weak sales performance, caused in part by the impact of considerable new competition on many existing and mature Woolco locations, resulted in a decline in the profits of this Division.

Company Stores' sales increased 18.6% to \$82,400,000 and represented reasonable performance in existing Men's Wear units and less than satisfactory results in the Women's Wear Division. Profit declined as a percentage of sales due mainly to increased expenses and higher opening and location costs.

Both the Licensed Departments and the Company Stores also experienced severe pressure on merchandise profit margins as Canadian retailers fought for market share in difficult economic climate during which over ten million

Casual wear, highlighting fashion jeans for young men and women, is featured in 46 Dapper Dan shops across Canada.



square feet of new retail space was opened with the heaviest concentration in Western Canada.

The Men's Wear Division – Jack Fraser Stores and Jacks

Eighteen Jack Fraser Stores were opened and 3 locations closed for 141 stores in operation at year end. No expansion of the 7-store Jacks chain occurred last year or is planned. Jack Fraser, the largest volume and key profit centre of the Company Stores group, outperformed the other Divisions. Eight new locations are currently under consideration.

The Women's Wear Division – The Loft and Sideffects

The Loft junior sportswear boutiques, adjacent to Jack Fraser locations, opened 16 new units and closed 2 for a total of 108 at year end. The Sideffects shops which were launched as a new chain in 1979 now have 29 locations after 11 openings last year.

With 137 locations in operation, the Women's Wear Division's expansion will be restricted to less than 10 stores as management concentrates on improved productivity and profitability from the existing well appointed locations.

George Richards Kingsize Clothes

George Richards, well known in Toronto and southwestern Ontario for specialized quality clothing for the big and tall man, continued national expansion with 6 new locations, 5 of which opened in major centres in western Canada. Twenty-one stores were in operation at year end. No significant expansion is planned as we strive to strengthen our market share.

Apparel Clearance Centres

This new Division of Grafton-Fraser was expanded to 7 locations by year end. These "off-price" stores sell manufacturers' clearances and special purchases at well below regular retail prices. Men's and women's apparel are featured with licensed family shoe departments in some locations.

Outlook

Modest sales growth is anticipated in the Licensed Departments in 1982 as new competition and weak economic conditions continue to impact on the Woolco Department Stores. Company owned stores are positioned, through recent years' expansion, to benefit from their excellent base of prime locations and the increasing market share enjoyed by specialty retailers.

With the number of new store openings planned at less than 50% of the prior year, Grafton-Fraser 1982 sales are not expected to increase significantly. Tight control on both Head Office and store expenses plus rigid inventory management are all essential to improve historical profit margins.

Quality clothing for large and tall men is featured in the 21 George Richards Kingsize Clothes stores.



The Loft, fashionable junior sportswear boutiques, serve younger women through 108 locations adjacent to Jack Fraser stores.



Business of the Division

Grafton-Fraser Inc. has operated the Men's and Boys' Wear Departments in all Canadian Woolco Department Stores since the opening of the first Woolco Store in Windsor, Ontario in 1962. These departments generate high sales volumes from mass self-selection displays of medium and lower price basic and casual apparel which are heavily advertised and promoted under the Woolco name in 119 locations coast-to-coast.

Sales and Profits

1981 sales of this Division declined .4% including sales from 7 new departments opened during the year. Even though operating expenses were rigidly controlled, profits were lower due to a decline in merchandise margins resulting from increased competitive and promotional activity. The major down-turn in sales in the second half of the year also resulted in a somewhat unsatisfactory year end inventory level. The Division shared the adverse impact in general of a proliferation of new competition, mainly in the form of large regional shopping malls, on numerous mature Woolco locations.

In addition, these Men's and Boys' Wear Departments lost market share to specialty "off-price" outlets which have experienced rapid growth and entered into traditionally strong Woolco trading areas.

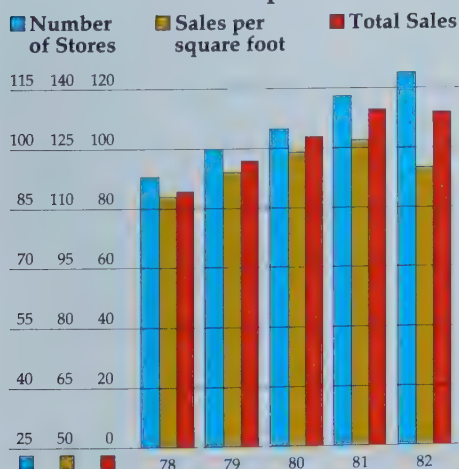
Outlook

In July 1980 the F.W. Woolworth Company advised that existing Grafton-Fraser license agreements would not be renewed and that no new licenses for new Woolco Stores would be granted. Subsequently negotiations commenced between Woolworth World Trade Corp. and Grafton Group and these negotiations resulted in a tentative agreement which would have given Woolworth U.S. a 55% interest in the Licensed Departments segment of Grafton-Fraser effective in early 1982 and a later option to purchase a 45% equity position in Grafton-Fraser's Company Stores Division. The negotiations of these agreements proved to be a lengthy process. On March 3, 1982 Grafton Group announced that it had terminated its negotiations with Woolworth World Trade Corp. in regard to the intended partnership agreements. Grafton informed Woolworth of its desire to negotiate the orderly termination of the Grafton-Fraser operation in Woolco on a mutually satisfactory basis. Until such termination occurs

Grafton-Fraser expects to continue to operate all existing Woolco Men's and Boys' Wear Departments and to open departments in new Woolco stores.

While these developments pose serious cause for concern to Grafton-Fraser management and in particular to the personnel employed directly by this Division of the Company, every effort will be made to continue to operate these Departments in an efficient and productive manner maintaining the spirit and integrity established in the process of building this organization over these past twenty years.

Licensed Woolco Departments



Men's and boys' departments in 119 Woolco locations are operated by the company selling medium and lower price basic and casual apparel.



Business of the Company

Elks Inc. is a retail apparel chain with offices and Distribution Centre in Toronto and 97 stores located in 6 Provinces. The company's common shares are listed on The Toronto Stock Exchange with 66% of the shares owned by Grafton. The senior management of Grafton-Fraser has assisted in the operation of Elks since October, 1980. Elks Inc. consists of two Divisions catering to different segments of the apparel market.

Elks Men's Wear Stores feature popular price clothing and casual wear. During the year, the Elks Division closed 6 stores and 3 units were converted to other uses for a net reduction in locations from 60 to 51 at year end.

The Dapper Dan shops feature fashion jeans and related casual wear for younger men and women. Dapper Dan opened 14 new stores and closed 3 resulting in 46 stores in operation at year end.

Sales and Profits

Elks Inc. 1981 sales were \$35,493,000 including \$1,500,000 in special warehouse sales achieved outside regular store locations. 1982 sales were \$36,007,000, an increase of 1% over

total 1981 sales and an increase of 6% over 1980 sales derived from regular store locations.

In 1981, sales declined 3.7% in the Elks Stores Division and increased 39% in the Dapper Dan Stores Division. The sales decrease in Elks Stores can be attributed entirely to the reduction in number of locations. In addition to sales contribution from the 14 new locations, Dapper Dan sales improved 8.5% on a same condition basis.

Difficulties in procurement of merchandise caused by concern over Elks financial status adversely affected sales in the first half of 1981 but by the fourth quarter such problems had been resolved through the support of Elks key suppliers. This faith and loyalty was essential to the progress achieved in 1982 and was greatly appreciated by management.

Elks store operating profits improved gradually throughout 1982 and were, by year end, within range of acceptable industry averages. The substantial 1982 capital cost investment in new stores, downsizing and renovation of existing locations enhanced the image of the two chains and produced gratifying improvements in sales per square foot.

However, financing costs on the Company's substantial debt, before the rights issue, head office overheads and excessive merchandise shrinkage resulted in another substantial loss.

Outlook

The second phase of the 3 year programme for revitalization of Elks retail locations will include renovation of 6 stores and the opening of up to 10 Dapper Dan shops. Capital expenditures will be 50% less than in 1981. No store closings are scheduled and no new openings are planned for Elks Stores.

While inventory shrinkage improved as a percentage of sales in 1981 a major effort will again be required in 1982 to reduce shrinkage to more tolerable levels. In conjunction with this project ongoing improvements to the sophisticated but poorly designed Elks electronic merchandise and distribution systems are planned for 1982.

Based on a planned sales increase for the coming year, Elks is expected to break even by year end.



A. L. Lucas
President
Grafton-Fraser Inc.

Specializing in popular priced clothing and casual wear, Elk's stores operate in 51 mall locations across the country.





Jack B. Coutts
Senior Vice President, Grafton-Fraser Inc.
 Born in 1924, Mr. Coutts served in the R.C.N.V.R. from 1943 to 1945. On his return to business life, he became a store manager with Maher Inc. During the years 1946-1966, he held the positions of Supervisor, Buyer and Vice President and in 1967 was appointed President and Director of Maher Inc. until 1971. In 1971, he joined the Grafton group of companies and was appointed Vice President Stores for the Jack Fraser Division. He was promoted in 1974 to the office of Senior Vice President Stores, a position he continues to hold.

Business of the Division

The Division operates 141 Jack Fraser Stores, 108 Loft Departments, 29 Sideeffects Stores and 7 Jacks Shops across Canada. Jack Fraser Stores sell men's apparel, Loft Departments junior ladies sportswear, Sideeffects Stores contemporary women's wear, Jacks Shops young men's fashions.

Review

This past year was a very active one for the Stores Division with a record number of new openings in 5 Divisions of the Company Stores. These new units have materially strengthened our position in the West, which is predicted to be Canada's major growth area during the next decade.

The Men's Division increased sales by 9%, although we did not maintain a volume of sales commensurate with inflation. Under prevailing circumstances this Division should experience a relatively good year in 1982.

We were disappointed with the Women's Division's contribution to both sales and profits. A sales increase of 22% was attributed entirely to new units. We will make a concerted effort this year to improve sales and operating efficiency in this Division.

Our profit margins were lower due to substantial markdowns in the latter quarter of the year, as we were determined to maintain clean, well balanced

inventories for the challenge ahead in 1982. Our net profit to sales ratio was again lower due to escalating expenses, particularly in rental and wage costs, both of which exceeded last year as a percentage of sales.

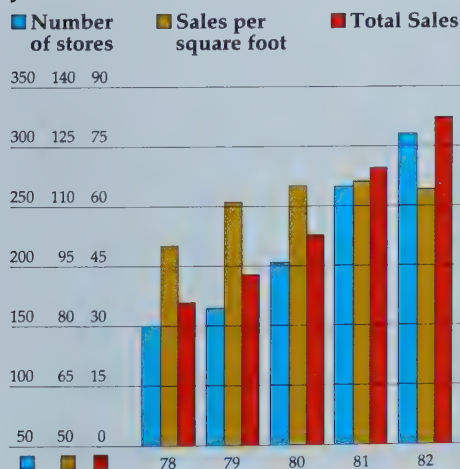
We have now completed a substantial program of upgrading and remodelling units from Coast to Coast, so that capital costs will be substantially reduced this year. In addition, we have limited the number of new stores planned for 1982, which will further reduce our capital cost requirements.

It has always been our policy to exercise long range judgement in our selection of personnel for important positions. We are confident that this policy has prepared us for the challenge ahead and placed us in a strong position for future growth.

J. B. Coutts
 Senior Vice President
 Company Stores
 Grafton-Fraser Inc.

Jack Fraser stores, the largest and most profitable segment of the Company Store group, has 141 stores in operation selling a broad range of men's wear including tailored clothing.

Jack Fraser/Womenswear Stores





James F. Seifert

*President and Chief Executive Officer
Seifert's.*

Born in 1928, Mr. Seifert graduated from the University of North Dakota with a B.S. in Commerce and served as an officer in the U.S. Air Force during the Korean war. In 1953, he and his brother formed a partnership to open a collection of women's apparel stores. In August of 1979, Seifert's, with 50 better women's stores in seven states, was acquired by Grafton Group Limited with Mr. Seifert continuing as President and CEO.

Business of the Company

After two and one half years with Grafton, Seifert's has more than doubled its size, with a total of 80 stores in 13 mid-west states stretching from the Canadian border south to Texas and west to Utah, an increase of 30 since acquisition. Of these, 76 are Seifert's stores specializing in better apparel with emphasis towards the professional working woman. In addition, Seifert's has opened 4 of their exciting new Mark Henri stores, targeted to today's contemporary and update woman, age 25 to 40.

Sales and Profits

1981 was a challenging and difficult year for the company as it wrestled with the United States recession, compounded by the problems of operating in one of the worst U.S. farm economies. Sales exceeded year ago figures by 23.4%.

Net after tax income declined 2.2%. This decrease is substantially lower than most of the retailing industry in the United States. Inventories were in excellent condition at year end, reflecting Seifert's traditional conservative policy of writing off all merchandise carried forward from the previous season.

Seifert's have developed two primary goals for 1982: one, the development and strengthening of depth of management to back up Seifert's accelerating growth; and, two, the improvement of maintained mark-on through tighter inventory control and purchase order management. Seifert's announced three-year plan of 100 stores will be met in 1982 with 12 more stores to open this Fall. There will be 90 Seifert stores and 10 Mark Henri stores. Many Seifert stores and all Mark Henri stores now feature leased high fashion shoe departments operated by our associated company, Oak-Bay Corporation.

Total sales are projected to increase 15% in the coming year with a commensurate increase in profits. We expect 1982 to continue to be an extremely difficult year for retailing in the United States, but we are accepting the challenge with an exceptionally strong management group and stores personnel. We are confident we can continue a rate of return which exceeds the industry norms.

James F. Seifert

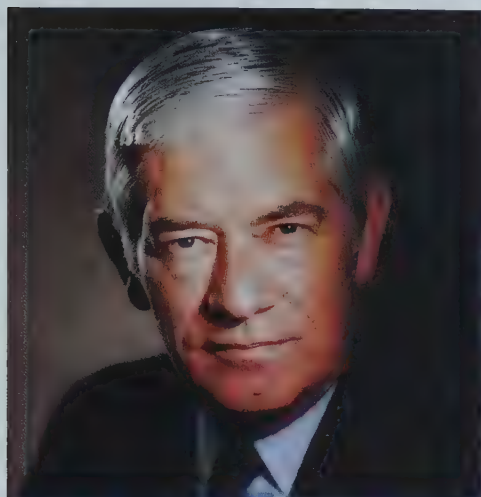
James F. Seifert
President and Chief Executive Officer
Seifert's

Mark Henri stores, appeal to the contemporary and update woman, ages 25 to 40.



Seifert's stores specialize in better apparel for the modern, professional woman.





Thomas P. Wilson

President, Maher Inc.

Born in 1932, Mr. Wilson started his career with Maher as a part-time, after school sales clerk at the age of 14. In 1950, Mr. Wilson joined Maher on a full time basis and progressed through various managerial assignments until 1960 when he joined the head office team as a supervisor. He was elected a Director of Maher in 1962, appointed Vice President in 1967 and promoted to President in 1971, a position which he still retains.

Business of the Company

Maher operates 229 retail stores across Canada. Its Divisions consist of Maher, Bonita, Shoeman, Copp, J. Reid, Barclay-Lanes and Leased Departments. The various Divisions cater to different types of customers and cover the medium and higher priced shoe range.

Sales and Profits

Maher sales for the year rose to \$59,588,000, an increase of 7.4% from the \$55,507,000 of last year. Net income before provisions for preferred dividends was \$2,012,000, a decrease of 20.6% from the \$2,533,000 earned last year.

Within a sluggish and deteriorating Canadian economy throughout the year, retailers generally increased their promotional activities in an effort to further stimulate sales and counter continued weaknesses in consumer demand. In this environment, the company's operations did not achieve its planned sales targets, same condition stores ran flat, with the modest sales increase principally reflecting new store contributions only. Nevertheless, inflation continued to be a major problem both for retailers and consumers. Footwear costs at the wholesale level are continuing to rise and the additional non-payroll costs, primarily location costs from our new store programme, are a significant increased factor, which results in squeezing profit margins for the company as a whole.

With 20 new stores being opened across Canada (13 in western Canada), 3 more completely refurbished and 5 marginal stores closed, there were 229 units in operation at year end, an increase of 7.0%.

While we will continue to be on the alert for extraordinary opportunities in 1982, our emphasis and thrust will be concentrated on further increasing the productivity and efficiencies of the operations already in place.

Oak-Bay Corporation

During 1981, sales rose by 39.0%, resulting principally from the addition of 8 new stores. Same condition store sales increased slightly and were severely impacted by poor economic conditions in the mid-western U.S.A. Losses remained at unsatisfactory levels while significant strides were made in controlling excessive inventory levels and open-to-buy merchandise commitments.

Thomas P. Wilson

T. P. Wilson
President
Maher Inc.

Maher Stores

■ Number of Stores ■ Sales per square foot ■ Total Sales



Maher shoes has 229 units in operation featuring popular priced footwear for men, women and children.





Thomas R. Young
President, Toby Industries Limited.
 Born in 1920, Mr. Young joined Toby in 1939, starting in the shipping department. He worked in various other departments of the Company during the next 16 years and in 1955 was appointed General Manager. In 1960, he was elected President of Toby. After the acquisition of Toby by Grafton Group in 1969, Mr. Young became a Director of Grafton Group and continued on as President of Toby, a position which he still retains.

Business of the Company

The Company has two manufacturing divisions located in separate facilities in Toronto. The Toby Division produces such items as cushions, chair pads, comforters, bedspreads, and is also involved in contract work for major hotels and motels. The James B.

McGregor Division has two principal areas of business, both of which involve fashion homefurnishings accessories. The bath products section manufactures shower curtains and distributes boutique products, accessories and embellished towels that are colour and design coordinated. The other area of business involves the distribution of the quality towel, sheet, and blanket products from West Point Pepperell, under the Martex and Lady Pepperell brand names.

Sales and Profits

1981 was a difficult year for the company. Sales increased only 5.2% to \$20,680,000 from \$19,657,000, while net income decreased 28.3% to \$577,000 from \$805,000.

Sales for the James B. McGregor Division showed strong growth for the first seven months of the year, but anticipated volume increases for the Fall did not materialize. The downturn in the economy had significant impact on this Division's performance, resulting in higher than usual inventory

levels, increased financing costs and escalating operating expenses, resulting in a significant decrease in net income.

1982 will be a year of challenge. As the country continues to wrestle with inflation, we must strive to maintain our market share and margins, despite stiff competition and changing consumer attitudes. Our team can successfully meet these challenges.

Thomas R. Young.

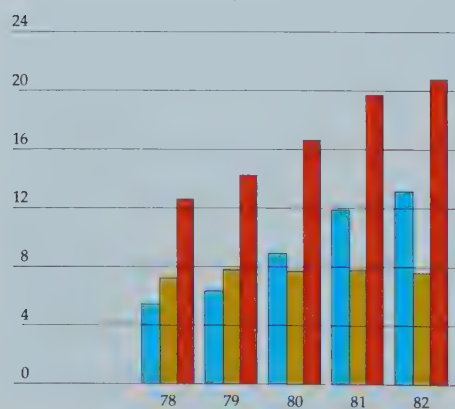
T. R. Young
 President
 Toby Industries Limited



The Company has two manufacturing divisions: Toby produces cushions, chair pads, bedspreads and comforters. James B. McGregor has two principal areas of business, shower curtains and bath accessories as well as towels and sheets sold under the Martex and Lady Pepperell brand names.

Toby Industries

■ McGregor ■ Toby ■ Total Sales





George A. Reynolds
*Vice President, Finance,
 Grafton Group Limited,
 Born in 1929, Mr. Reynolds articulated with
 the accounting firm of Thorne Riddell,
 becoming a Chartered Accountant in 1957
 and joined Grafton's Limited in 1963 as
 Controller. Mr. Reynolds was appointed
 Secretary of Grafton Group Limited in
 1967, Treasurer in 1968, Vice President,
 Finance in 1971 and a Director in 1972.*

Balance Sheet

Working capital

Working capital increased by \$6,600,000 during the year. This mainly resulted from a reclassification of Elks Inc. long term debt from current liabilities to long term debt as the Elks' balance sheet had improved sufficiently after its rights offering to enable it to meet certain tests required under its borrowing covenants.

Cash and bank deposit receipts

Temporary investments, cash on hand to meet current expenditures and funds in transit from stores make up the \$26,892,000 shown on the balance sheet. The decrease of \$4,305,000 is attributable to the investment of \$5,373,000 by Grafton Group in the rights issue of Elks which does not appear as a separate item on the consolidated statements. When combined, cash and marketable securities total \$55,579,000, being \$6,032,000 less than last year.

Marketable securities

The marketable securities main component was a floating rate preference share of a large Canadian industrial company which was sold at par shortly after the year end. The balance of the portfolio amounting to \$3,687,000 has been written down to market by a charge of \$1,100,000 against investment income to reflect current interest rates and general market conditions. No substantial purchases of securities for investment purposes are anticipated.

Accounts receivable

The homefurnishing division accounts receivable and Seifert's retail customer receivables account for most of the balance in this account. Payments in general have slowed but the Company believes that the increased provisions for the anticipated bad debts are adequate. Our other retail companies use bank credit cards and are not subject to collection difficulties. No loans to directors or senior officers were outstanding at the year end nor were any loans made to them during the course of the year.

Inventories

Apparel – Apparel inventory increased by \$3,709,000 on a sales increase of 19% and is comprised of the following:

	This Year	Last Year	% Change
Grafton-			
Fraser	\$32,154,000	\$29,993,000	+ 7.2
Elks	5,863,000	4,891,000	+ 19.9
Seifert's	4,093,000	3,517,000	+ 16.4
	<u>\$42,110,000</u>	<u>\$38,401,000</u>	+ 9.7

The increases in Grafton-Fraser and Seifert's inventories reflect the large number of stores opened during the year while the Elks inventory level was allowed to rise to provide more adequate stock as last year's low inventory was due to the reluctance of suppliers to ship Elks at that time. Based on average year end inventory, the

turns for the year were: Grafton-Fraser Inc. 6.3 turns (6.9 the prior year), Elks Inc. 6.7 turns (4.4 the prior year) and Seifert's 13 turns (12 the prior year).

Footwear – Footwear inventory climbed by \$2,348,000 as a result of new stores, increased price points and a sales shortfall in Maher. Comparative figures are:

	This Year	Last Year	% Change
Maher	\$14,167,000	\$11,746,000	+ 20.6
Oak-Bay	2,074,000	2,147,000	- 3.4
	<u>\$16,241,000</u>	<u>\$13,893,000</u>	+ 16.9

Inventory turns were 4.6 (5.1 prior year) for Maher and 4.2 (3.1 prior year) for Oak-Bay.

Homefurnishings – the inventory increased \$755,000 or 13.3% and is almost all attributable to an overstocked position in James B. McGregor bath products.

Investments

Forsyth Trading Company – 33⅓% owned

Forsyth manufactures and imports an increasing number of items under such famous names as Pierre Cardin and Forsyth with increasing emphasis on private label apparel for leading Canadian chains.

During the year, the Forsyth operating company was changed to a partnership retaining the same ownership but in a different form. Sales for the company rose modestly while earnings decreased slightly due to increased financial costs and pressure on margins. Forsyth redeemed the balance of its outstanding preference shares and returned to its partners, in cash, approximately 60% of the earnings recorded in prior years as equity income.

Oil and gas investments

The Company and its U.S. subsidiary have invested \$8,000,000 in gas and oil exploration over the past three years. The return to date, other than through tax

incentives, has been negligible. Some oil has been found in Canada while the extensive gas holdings are locked in the ground. After several dry holes, two large gas wells were discovered in Louisiana which should increase the cash flow to a significant amount. Numerous other small wells are on production in several States and based upon proven and probable reserve figures the medium to long term viability of this investment now appears satisfactory. Our additional commitment to this joint venture over the next two years is \$6,000,000.

Receivable from trustee

\$821,000 is the amount receivable from the Trustees of the Grafton Group Employee Stock Purchase Plan. The Plan was established to enable store managers and other senior employees to purchase shares of the Company and to pay for them at no interest over a 10-year period. The Plan was not made available to any Directors of the Company and there are currently about 225 employees in the Plan. The amount receivable from the trustees will be reduced as employee payments are made.

Fixed assets

The Company continued its rapid store expansion and expended nearly \$12,000,000 (net of landlord allowances) on new stores and modernization of older units. All fixed additions are purchased outright and there are no lease back contracts. Real estate in the amount of \$2,021,000, previously carried as an investment, has been re-classified as land to conform with a change in intended use. Depreciation and amortization of leasehold improvements amounted to \$6,502,000 for a net capital outlay on fixed assets of \$5,471,000 approximately \$800,000 more than last year. The Company intends to keep its expenditures on fixed assets more closely in line with its depreciation expense for the next few years.

Goodwill

Goodwill in respect to Maher, George Richards, Seifert's and Oak-Bay is being amortized on a straight line basis over varying periods of time from 10 to 40 years depending on the circumstances. During the year \$755,000 was amortized against earnings and since the dates of acquisition \$2,408,000 has been charged to income.

Excess of cost of shares over net book value of assets acquired

In the 1981 financial statements, the amount of \$7,694,000 was included on the Company's balance sheet, being the cost of its investments in Elks Inc. over Elks negative net worth. At that time, the components of this amount such as goodwill, value of tax loss carry forwards, leases and other items could not be ascertained. During the year an 11 for 1 rights offering by Elks was concluded successfully with Grafton Group investing approximately \$5,373,000. In addition, \$650,000 was used to purchase the convertible preference shares of Elks. After these transactions, the Company's cash investment in Elks totalled approximately \$7,150,000. Minority shareholders of Elks took up the bulk of their rights under the issue referred to above in the amount of \$2,828,000 which had the effect of reducing the Excess of Cost on Grafton books to \$5,398,000. A careful review of the situation was made by your Directors and after assessing the decreased potential of utilizing income tax loss carry forwards, the value of leases in a depressed real estate market, Elks poor financial condition and lack of positive goodwill, it was decided to write off the investment as an extraordinary charge against income during the year.

Bank Loans

The 1982 bank loans relate to Oak-Bay Corporation and are down

substantially as those relating to Elks Inc. were eliminated due to its refinancing and careful cash flow management.

Accounts payable

Trade accounts payable comprise the major portion of this amount and the increase reflects higher inventory levels and a shortfall in the volume of full margin, pre-Christmas sales. This amount should decrease in the future as many suppliers change to discount terms which encourages earlier payment.

Income and other taxes payable

The decline in this amount reflects increased instalment payments during the year and decreased earnings in the fourth quarter.

Current portion of long term debt

The decrease resulting from the re-classification of Elks long term debt from current to long term was offset by a portion of the \$20,000,000 (U.S.) term loan used to purchase Seifert's becoming current.

Long term debt

The increase was due to the re-classification of Elks debt referred to above. The substantial increase in debt due in 1984 also relates to Elks but the Company is hopeful that this amount can be refinanced over a longer term if Elks financial position can be improved through profits. The Company exercised its option to convert the \$20,000,000 (U.S.) loan used to purchase Seifert's into a fixed term loan with quarterly repayments until 1990. \$912,000 of the 10.5% sinking debentures due 1997 were purchased during the year to meet the sinking fund requirements. Although the company's cash and marketable securities position is \$7,500,000 greater than all its long term debt combined, the Canadian Bond Rating Service reduced their rating from A to BBB.

Obligations under capital leases

Capital leases can arise where the tenant has a major effect on the

economic life or viability of a location whether through the term of the lease or value of the lease to the value of the overall property. This general criteria is met by several downtown locations of Seifert's in the United States. It is not met by the size of the leased premises or the term of the lease in shopping centre locations where our stores are located. Fixtures and equipment leased by Elks are considered capital leases for accounting purposes. All other divisions purchase outright their fixtures and equipment. A careful review of the store lease commitments indicates that the Seifert's leases are the only capital leases as defined.

Deferred income taxes

Deferred income taxes may relate to different assets, occur for varying reasons and are segregated on the balance sheet with regard to the nature of the asset involved. The deferred income taxes item under the current asset section of the balance sheet arose due to differences in valuing current assets for balance sheet and income tax purposes. Long term deferred tax liability was created by timing differences between depreciation expensed through the statement of income and that allowable for tax purposes and the oil and gas investment tax credits, both non-current items.

Shareholders' equity

Capital stock

On June 1, 1979, the Company reorganized its capital structure into three classes of shares, all of no par value. The shares outstanding at the end of the year were:

585,174 Preference shares,
Series A

4,997,072 Class A shares

1,249,268 Common shares

The Company must use its best efforts to purchase 4,500 preference shares on the open market in each quarter of the calendar year

at a price not to exceed \$37.50. The Company purchased at least 4,500 shares in each quarter at an average cost of \$24.44 and paid-in share capital was reduced by \$440,000.

Retained earnings

Retained earnings rose to \$81,162,000 from \$77,362,000, an increase of 5%. Dividends on preference shares (\$3.00 per share) amounted to \$1,774,000. The class A and common share dividends were \$3,374,000 or .54¢ per share. The current quarterly dividend rate per share is .75¢ for preference shares and .14¢ per class A and common share.

Statement of income

Sales increased 16.5% to \$368,345,000 from \$316,259,000. Retail sales increased by 17.2%. Of this increase, 9.5% came from divisions owned for a full year with the balance from an acquisition owned for a full year (four months last year). Cost of sales and other expenses were 81.4% of sales for the year as compared with 79.3%. This was due to expenses rising faster than comparable sales increases and a decrease in over all maintained gross margins. Rental and license expense increased marginally as a per cent of sales to 7.7% from 7.5%. The inclusion of Seifert's with their lower rental costs and more stores achieving percentage rental was not enough to offset the higher rental costs for new locations. Decreased interest income resulted from reduced excess funds. Investment income reflects an increase in dividend income, offset by a write down to market of the investment portfolio. Equity income is comprised of income from Forsyth. Depreciation continues to rise dramatically due to new stores. The long term debt expense increase is due to the high interest rates on the Seifert's and Oak-Bay acquisitions and Elks long term debt interest for 12 months. Other

interest expense pertains to the financing costs of inventories at high rates during the year. Goodwill expense includes the amortization of goodwill arising from the Maher, Seifert's, Oak-Bay and George Richard purchases and are for periods of time deemed appropriate in the circumstances. As the Canadian dollar was higher in terms of the U.S. dollar at January 31 this year, an unrealized foreign exchange loss was deducted from income. The apparent income tax rate increased to 43.8% from 42%. This was due to the fact that the Elks pre-tax loss was not available to offset profits in other divisions and a substantial increase in non-deductible expenses. To calculate the earnings per class A and common share, net income is reduced by the preference dividends paid (\$1,774,000 in 1982, \$1,836,000 in 1981) and the result divided by the number of shares outstanding during the year. The effect of this calculation is that while net income decreased before extraordinary item by 29.6% to \$14,346,000 from \$20,088,000, net earnings before extraordinary item per class A and common shareholders dropped by 30.8% to \$12,572,000 from \$18,252,000.

Subsidiaries – Canadian Grafton-Fraser Inc.

Sales increased by 6.8% to \$194,700,000 from \$182,247,000. The small sales increase was due to a .4% decline in Licensed Woolco Department sales and sales for 52 weeks this year as against 53 weeks last year. Net income from the division declined 10.6%. Increases in merchandise shrinkage, rents and operating expenses combined with lower maintained margins more than offset the increased profits generated by the sales increase. Expenditures on new stores were \$4,000,000 up from \$3,100,000 while depreciation increased to \$1,900,000 from \$1,700,000.

Mahe Inc. – 100% of common shares owned, 60¢ preference shares listed on The Toronto Stock Exchange.

Sales for the year were \$59,588,000 compared with \$55,507,000 an increase of 7.4% from last year. After provision for preference share dividends, net income amounted to \$1,918,000 down 21.4% from \$2,440,000. Sales from British Columbia were particularly disappointing due to the economy and the impact of new shopping malls on profitable downtown Copp stores. Decreased margins and substantially increased expenses were somewhat offset by the improvement in sales per square foot. Year end inventories rose by an unsatisfactory 20.6% even after taking into account new stores.

Toby Industries Limited – 100% owned

Sales increased 5.2% to \$20,680,000 from \$19,657,000 despite a significant decrease in department store purchases. Earnings for both divisions, Toby and McGregor, were down. Increased production and sales expenses at Toby caused its decrease while expenses related to the low margin Martex line outstripped the sales increase. Toby and Martex inventories came in on budget but the McGregor division inventory was too high. Steps have been taken to rectify the situation and prevent a recurrence. Slowness in payments on accounts receivable has become more evident in recent months but an adequate provision for doubtful accounts has been made.

Elks Inc. – 66% owned, common shares listed on The Toronto Stock Exchange.

Sales for the year were \$36,007,000 up 1.4% from \$35,493,000 for the prior year. The loss for the year, was \$1,222,000 as compared with \$8,081,000 last year, most of which occurred prior to Grafton's purchase of 65% of the common

shares in September, 1980. Fourth quarter earnings were due to good Christmas sales and a substantial decrease in interest charges as a result of the rights issue. After a slow Spring season, due in part to lack of merchandise, sales steadily improved during the year despite the poor economy. Tight expense control, good inventory management and increased productivity are reflected in the increasingly positive outlook for the company. Last Spring, Grafton purchased all of its outstanding convertible, redeemable preference shares from an equipment supplier. The shares are convertible into common shares at a price dependent on the trading price of the Elks shares on The Toronto Stock Exchange. In September, Elks completed a rights offering whereby each holder of a common share on August 21, 1981 received the right to purchase 11 new common shares at \$1.00 each. This issue was underwritten by Grafton and its shareholdings increased by ½ of 1%. In August, another company announced it had acquired 10% of Elks stock and increased its holdings to 17% during the fall of 1981. Grafton has commenced an action against a former President of Elks for breach of an agreement and for damages for fraud and fraudulent misrepresentation. The former President of Elks has also commenced an action against the Company, Elks and the late G. R. Chater.

Subsidiaries – United States

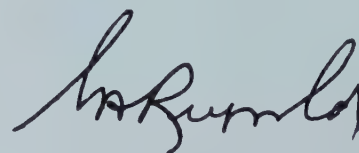
Seifert's – 100% owned

Sales for the year increased by 23.4% to \$49,350,000 (Canadian) from \$39,981,000 for last year. On a store for store basis, sales were up marginally with most of the increase coming from new units. Net income declined by 2.2% due to lower margins and higher costs associated with new store openings. Trends in sales and profits were the reverse of the prior year,

being strong in the Spring and deteriorating in the Fall. During the year, Seifert's Incorporated was merged into its parent company, Grafton Group Inc., a Delaware corporation, and now operates as a division of this company. Due to this merger and write-offs permitted through gas and oil exploration and related expenses, no Federal Income Taxes were payable in the U.S. Working capital of Seifert's increased to \$10,182,000 with a current ratio 2.9:1. Cash and term deposits were \$6,294,000 and accounts receivable due from customers under its credit plan was \$4,717,000. Seifert's makes extensive use of highly automated systems with respect to customer receivables for increased sales, direct mail advertising and continued its customer dialogue. As the management team continues to strengthen, concentrated growth through the U.S. midwest is anticipated.

Oak-Bay Corporation – 100% owned

It was another disappointing year for Oak-Bay as the company again suffered from too much inventory and the resulting markdowns. Some improvement was achieved during the year as the current inventory is down from last year even with the new stores. Commitments from our senior footwear division management to make the systems work should result in a more positive situation next year. Expansion will concentrate on leased shoe departments in Seifert's stores.



G. A. Reynolds
Vice President Finance,
Secretary and Treasurer

Summary of Financial Data by Corporate Division

	Sales								
	1982			1981			1980		
	Amount 000's	% of Total	% Increase	Amount 000's	% of Total	% Increase	Amount 000's	% of Total	% Increase
Apparel									
Grafton-Fraser Inc.									
Stores	\$ 82,400	22.4	18.6	\$ 69,487	22.0	30.8	\$ 53,135	22.1	23.0
Licensed Woolco Departments	112,300	30.4	(.4)	112,760	35.6	8.7	103,700	43.1	8.4
	194,700	52.8	6.8	182,247	57.6	16.2	156,835	65.2	12.9
Elks Inc.									
(4 months in 1981)	36,007	9.8		13,098	4.2				
Seifert's Incorporated (5 months in 1980)	49,350	13.4	23.4	39,981	12.6		17,500	7.2	
	280,057	76.0	19.0	235,326	74.4	35.0	174,335	72.4	25.5
Footwear									
Maher Inc.	59,588	16.2	7.4	55,507	17.6	14.2	48,603	20.2	17.9
Oak-Bay Corporation (2 months in 1980)	8,020	2.2	39.0	5,769	1.8		1,199	0.5	
	67,608	18.4	10.3	61,276	19.4	23.0	49,802	20.7	20.8
Homefurnishings									
Toby Industries Limited	20,680	5.6	5.2	19,657	6.2	18.7	16,557	6.9	17.0
Total Sales	<u>\$368,345</u>	<u>100.0</u>	<u>16.5</u>	<u>\$316,259</u>	<u>100.0</u>	<u>31.4</u>	<u>\$240,694</u>	<u>100.0</u>	<u>23.9</u>
	Net Income								
	1982			1981			1980		
	Amount 000's	% of Total	% Increase	Amount 000's	% of Total	% Increase	Amount 000's	% of Total	% Increase
Canadian									
Apparel	\$ 9,670	67.4	(14.8)	\$ 11,356	56.5	(3.2)	\$ 11,728	64.4	5.6
Footwear	1,918	13.4	(21.4)	2,440	12.1	3.3	2,361	13.0	46.5
Homefurnishings	577	4.0	(28.3)	805	4.0	20.5	668	3.7	71.7
Corporate (net)	2,983	20.8	(41.7)	5,116	25.5	77.3	2,886	15.8	53.0
	15,148	105.6	(23.2)	19,717	98.1	11.8	17,643	96.9	17.7
United States									
Apparel	1,942	13.5	(2.2)	1,985	9.9	73.8	1,142	6.2	
Footwear	(457)	(3.2)	(126.2)	(202)	(1.0)		33	0.2	
Interest and goodwill	(2,287)	(15.9)	(62.0)	(1,412)	(7.0)		(608)	(3.3)	
	(802)	(5.6)	(216.2)	371	1.9	(34.6)	567	3.1	
Total before extraordinary item	<u>\$ 14,346</u>	<u>100.0</u>	<u>(28.6)</u>	<u>\$ 20,088</u>	<u>100.0</u>	<u>10.3</u>	<u>\$ 18,210</u>	<u>100.0</u>	<u>21.5</u>
	Gross Assets								
	1982			1981			1980		
	Amount 000's	% of Total		Amount 000's	% of Total		Amount 000's	% of Total	
Canadian									
Apparel	\$ 79,548	37.5		\$ 79,759	37.3		\$ 50,953	29.9	
Footwear	28,869	13.6		25,377	11.8		21,633	12.7	
Homefurnishings	12,155	5.7		11,522	5.4		9,673	5.7	
Corporate (net)	43,565	20.5		53,316	24.9		52,982	31.2	
	164,137	77.3		169,974	79.4		135,241	79.5	
United States									
Apparel	40,092	18.9		38,651	18.0		31,877	18.7	
Footwear	3,642	1.7		3,608	1.8		2,636	1.6	
Corporate	4,438	2.1		1,712	.8		324	.2	
	48,172	22.7		43,971	20.6		34,837	20.5	
Total	<u>\$212,309</u>	<u>100.0</u>		<u>\$213,945</u>	<u>100.0</u>		<u>\$170,078</u>	<u>100.0</u>	

Grafton Group Limited	Year ended January 31,	
	1982	1981
INCOME		
Sales		
Retail	\$347,665,000	\$296,602,000
Homefurnishings	20,680,000	19,657,000
	<u>368,345,000</u>	<u>316,259,000</u>
Cost of sales and expenses other than undernoted	299,774,000	250,719,000
Rental and licence expense	28,259,000	23,697,000
	<u>328,033,000</u>	<u>274,416,000</u>
Income from operations before the following	40,312,000	41,843,000
Interest income	526,000	697,000
Investment income	2,164,000	4,268,000
Equity income	950,000	1,195,000
	<u>3,640,000</u>	<u>6,160,000</u>
Income before taking into account the undernoted items	43,952,000	48,003,000
Depreciation	6,502,000	4,630,000
Interest on long term debt	8,438,000	5,832,000
Other interest expense	3,151,000	2,353,000
Amortization of goodwill	755,000	715,000
Unrealized foreign exchange loss (gain)	101,000	(338,000)
	<u>18,947,000</u>	<u>13,192,000</u>
Income before income taxes, minority interest and extraordinary item	25,005,000	34,811,000
Income taxes	10,957,000	14,630,000
Income before minority interest and extraordinary item	14,048,000	20,181,000
Minority interest in (income) loss of subsidiary companies	298,000	(93,000)
Income before extraordinary item	<u>14,346,000</u>	<u>20,088,000</u>
Write-off of excess of cost of shares over net book value of assets acquired (note 2)	5,398,000	
NET INCOME	<u>\$ 8,948,000</u>	<u>\$ 20,088,000</u>
EARNINGS PER CLASS A AND COMMON SHARE		
(after providing for dividends on preference shares)		
Before extraordinary item	<u>\$2.02</u>	<u>\$2.92</u>
Net income	<u>\$1.16</u>	<u>\$2.92</u>

RETAINED EARNINGS

	Year ended January 31,	
	1982	1981
BALANCE AT BEGINNING OF YEAR	\$ 77,362,000	\$ 61,982,000
Net income	8,948,000	20,088,000
	<u>86,310,000</u>	<u>82,070,000</u>
Dividends paid		
Preference shares, Series A (1982, \$3.00 per share; 1981, \$3.00 per share)	1,774,000	1,836,000
Class A shares and common shares (1982, 54¢ per share; 1981, 46¢ per share)	3,374,000	2,872,000
	<u>5,148,000</u>	<u>4,708,000</u>
BALANCE AT END OF YEAR	<u>\$ 81,162,000</u>	<u>\$ 77,362,000</u>

Consolidated Balance Sheet as at January 31, 1982

19

Grafton Group Limited
(Incorporated under the laws of Ontario)

ASSETS	1982	1981
CURRENT ASSETS		
Cash and bank deposit receipts	\$ 26,892,000	\$ 31,197,000
Marketable securities, at lower of cost and market (market value, \$28,687,000; 1981, \$30,414,000)	28,687,000	30,414,000
Accounts receivable	14,180,000	13,156,000
Inventories (note 3)	64,772,000	57,960,000
Deposits and prepaid expenses	1,450,000	1,470,000
Deferred income taxes	1,615,000	1,579,000
	<u>137,596,000</u>	<u>135,776,000</u>
INVESTMENTS (note 4)	11,649,000	11,477,000
FIXED ASSETS (note 5)	44,335,000	37,930,000
UNAMORTIZED FINANCING COSTS	252,000	283,000
GOODWILL, less amortization (note 1 (d))	18,477,000	20,785,000
EXCESS OF COST OF SHARES OVER NET BOOK VALUE OF ASSETS ACQUIRED (note 2)		7,694,000
	<u>\$212,309,000</u>	<u>\$213,945,000</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank loans	\$ 1,482,000	\$ 6,605,000
Accounts payable and accrued liabilities	49,763,000	43,437,000
Income and other taxes payable	10,438,000	14,338,000
Current portion of long term debt	3,303,000	5,458,000
Current portion of obligations under capital leases	590,000	518,000
	<u>65,576,000</u>	<u>70,356,000</u>
LONG TERM DEBT (note 6)	<u>44,766,000</u>	<u>43,501,000</u>
OBLIGATIONS UNDER CAPITAL LEASES (note 7)	<u>6,525,000</u>	<u>6,977,000</u>
DEFERRED INCOME TAXES	<u>1,192,000</u>	<u>1,714,000</u>
MINORITY SHAREHOLDERS INTEREST IN SUBSIDIARY COMPANIES	<u>1,613,000</u>	<u>2,120,000</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)	11,475,000	11,915,000
RETAINED EARNINGS	81,162,000	77,362,000
	<u>92,637,000</u>	<u>89,277,000</u>
	<u>\$212,309,000</u>	<u>\$213,945,000</u>

Licensed Woolco Departments (note 10)
Commitments and contingencies (notes 7 and 12)

Approved by the Board
James W. McCutcheon, *Director*
W. A. Heaslip, *Director and President*

Grafton Group Limited	Year ended January 31,	
	1982	1981
WORKING CAPITAL DERIVED FROM		
Operations		
Income before extraordinary item	\$14,346,000	\$20,088,000
Items not involving working capital		
Depreciation and amortization	7,288,000	5,376,000
Deferred income taxes (reduction)	(522,000)	728,000
Equity income	(950,000)	(1,195,000)
Dividends received from the company accounted for on the equity method	3,000,000	
Minority interest in loss of subsidiary companies	(389,000)	
Gain on debentures purchased for redemption	(346,000)	
Other non-cash losses	206,000	
Foreign exchange loss (gain)	101,000	(338,000)
	<u>22,734,000</u>	<u>24,659,000</u>
Increase in non-current portion of long term debt	2,177,000	1,648,000
Increase in non-current portion of obligations under capital leases		2,186,000
Redemption of Forsyth Trading Company Limited preference shares	334,000	
Purchase of shares of Elks Inc. by minority shareholders	2,828,000	
Proceeds from sale of fixed assets	467,000	
Decrease in receivable from trustee	62,000	105,000
Other	17,000	150,000
	<u>28,619,000</u>	<u>28,748,000</u>
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	11,973,000	13,900,000
Dividends	5,148,000	4,708,000
Redemption of preference shares	440,000	683,000
Redemption of debentures	566,000	
Purchase of preference shares of Elks Inc.	650,000	
Investment in oil and gas properties	2,790,000	2,981,000
Acquisition of subsidiary companies plus their working capital deficiency at date of acquisition of \$7,605,000		10,815,000
Decrease in non-current portion of obligations under capital leases	452,000	
	<u>22,019,000</u>	<u>33,087,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL	6,600,000	(4,339,000)
WORKING CAPITAL AT BEGINNING OF YEAR	65,420,000	69,759,000
WORKING CAPITAL AT END OF YEAR	<u>\$72,020,000</u>	<u>\$65,420,000</u>
COMPONENTS OF INCREASE (DECREASE) IN WORKING CAPITAL		
INCREASE (DECREASE) IN CURRENT ASSETS		
Cash and bank deposit receipts	\$ (4,305,000)	\$ 6,667,000
Marketable securities	(1,727,000)	(5,154,000)
Accounts receivable	1,024,000	1,758,000
Inventories	6,812,000	12,955,000
Deposits and prepaid expenses	(20,000)	776,000
Deferred income taxes	36,000	349,000
	<u>1,820,000</u>	<u>17,351,000</u>
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Bank loans	(5,123,000)	6,605,000
Accounts payable and accrued liabilities	6,326,000	11,827,000
Income and other taxes payable	(3,900,000)	(2,336,000)
Current portion of long term debt	(2,155,000)	5,167,000
Current portion of obligations under capital leases	72,000	427,000
	<u>(4,780,000)</u>	<u>21,690,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 6,600,000</u>	<u>\$ (4,339,000)</u>

Grafton Group Limited
Year ended January 31, 1982

1. SUMMARY OF ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies and divisions since dates of acquisition. The major operating subsidiaries and divisions are as follows:

	Fiscal Year of Acquisition	Accounting Year End
Grafton-Fraser Inc.	1968	January 6, 1982
Toby Industries Limited	1970	December 31, 1981
Grafton Realty Company, Limited	1972	December 31, 1981
Maher Inc.	1975	January 2, 1982
Seifert's Division	1980	December 31, 1981
Oak-Bay Corporation	1980	December 31, 1981
Elks Inc. (formerly Elks Stores Limited)	1981	January 31, 1982

The consolidated financial statements also include since 1974 the accounts of the 33⅓% owned Forsyth Trading Company on an equity accounting basis. During the year Forsyth Trading Company was converted to a partnership with the company owning a ⅓ interest in the partnership.

(b) Inventories

The inventories are valued as follows:

Retail inventory – lower of cost and net realizable value less normal profit margin.

Homefurnishings inventory

Raw materials – lower of cost and replacement cost.

Work in process and finished goods – lower of cost and net realizable value.

(c) Fixed Assets

Fixed assets are stated at cost. Depreciation is provided as follows:

Buildings	5% diminishing balance
Equipment and fixtures	20% diminishing balance and 10% straight-line
Leaseholds	term of lease or estimated useful life whichever is shorter, straight-line

Subsidiary companies lease certain property and equipment under capital leases as defined by The Canadian Institute of Chartered Accountants. These leases are capitalized based on the lower of fair market value and the present value of minimum future lease payments (excluding executory costs) and are recorded as buildings and equipment and obligations under capital leases. Buildings under capital leases are depreciated over the terms of the leases on a straight-line basis and equipment under capital leases is depreciated on a straight-line basis over terms varying from eight to ten years. Rental payments (excluding executory costs) are reflected as interest expense and as reductions of obligations under capital leases.

(d) Goodwill

Goodwill, which represents the excess of cost over assigned values of net assets acquired of subsidiary companies, is being amortized in accordance with the requirements of the Canadian Institute of Chartered Accountants on a straight-line basis over terms varying from ten to forty years. Accumulated amortization to January 31, 1982 is \$2,408,000.

(e) Oil and Gas Properties

Oil and gas properties, in accordance with the full cost method of accounting, include all expenditures related to the exploration and development of oil and

gas reserves whether or not potentially productive. These costs are amortized on the composite unit of production method based upon total estimated recoverable reserves.

(f) Translation of Foreign Currencies

The accounts of the subsidiary companies located in the United States and the parent company's long term bank loan payable in United States funds have been translated to Canadian currency as follows:

Assets and liabilities – at exchange rates in effect on the balance sheet date of the United States subsidiaries.

Long term debt owing by the parent company – at exchange rates in effect on the balance sheet date.

Items included in net income at average exchange rates except depreciation and amortization which are translated at exchange rates in effect on the balance sheet dates.

Exchange gains and losses are recorded in income.

(g) Income Taxes

The company charges earnings with income taxes currently payable and also with income taxes deferred by claiming certain costs for income tax purposes in amounts differing from the related costs charged to income. The accumulated total of such income tax deferments is reflected in the consolidated balance sheet as deferred income taxes.

(h) Financing Costs

Costs, if any, of issuing long term debt have been deferred in the year incurred and are being amortized against income over the term of the applicable issue.

(i) Pension Costs

Current service pension costs are charged to operations annually.

2. INVESTMENT IN ELKS

During the year Elks Inc. issued warrants to its common shareholders granting rights to subscribe for up to an additional 11 common shares for each common share held at a price of \$1.00 per common share. As a result of this rights issue Elks Inc. received proceeds of \$8,201,000, of which minority shareholders subscribed for 2,828,000 common shares at a cost of \$2,828,000. Most of the \$2,828,000 has been applied to reduce the excess of cost of shares over net book value of assets acquired because of the shareholders' deficiency of Elks Inc.

At January 31, 1981 the Company was not able to allocate the purchase price of the shares of Elks Inc. due to the uncertainty as to the final cost of the shares of Elks Inc. and potential future action the Company might take. At that time the amount which could not be allocated was recorded in the consolidated balance sheet as "excess of cost of shares over underlying value of net assets acquired". During the year the Company determined that the excess of the cost of shares over underlying value of net assets acquired had no assignable value and accordingly the remaining balance after the transactions referred to in the preceding paragraph has been written off to income as an extraordinary item.

3. INVENTORIES

	1982	1981
Retail		
Apparel	\$42,110,000	\$38,401,000
Footwear	16,241,000	13,893,000
	<u>58,351,000</u>	<u>52,294,000</u>
Homefurnishings		
Raw materials	2,207,000	2,123,000
Work in process	331,000	249,000
Finished goods	3,883,000	3,294,000
	<u>6,421,000</u>	<u>5,666,000</u>
	<u>\$64,772,000</u>	<u>\$57,960,000</u>

4. INVESTMENTS

	1982	1981
Forsyth Trading Company	\$ 2,966,000	\$ 5,350,000
Oil and gas properties	7,771,000	4,981,000
Receivable from trustee	821,000	883,000
Listed marketable securities, at cost	19,000	167,000
Other	72,000	96,000
	<u>\$11,649,000</u>	<u>\$11,477,000</u>

In 1980, the Company entered into an agreement to finance exploration and development activities for oil and gas properties. This agreement is for five years subject to termination on one year's notice by the Company. The Company has advanced \$7,771,000, of which \$7,046,000 has been expended, under the terms of this agreement and the future maximum required funding contribution in any one year is limited to \$3,000,000. As at January 31, 1982, exploration and development activities are basically in the preliminary stages and all costs and revenues related to these activities have been deferred.

In 1980 certain subsidiary companies advanced funds to a trustee corporation under the terms of an employee stock purchase plan. The funds were advanced to the trustee, non-interest bearing, to enable the trustee to purchase shares of Grafton Group Limited which shares were then purchased by employees, other than directors of Grafton Group Limited. The shares must be paid for by the employees at a minimum of 10% per year. Advances made by the subsidiary companies will be in the form of redeemable preference shares of the trustee corporation and the shares will be redeemed in amounts equivalent to employee payments.

5. FIXED ASSETS

	1982	1981
Land	\$ 3,408,000	\$ 3,406,000
Buildings under capital leases	4,980,000	4,837,000
Buildings	3,879,000	3,805,000
Equipment, fixtures and leaseholds	49,123,000	38,432,000
Equipment under capital leases	2,324,000	2,553,000
	<u>63,714,000</u>	<u>53,033,000</u>
Less accumulated depreciation	<u>19,379,000</u>	<u>15,103,000</u>
	<u>\$44,335,000</u>	<u>\$37,930,000</u>

Included in accumulated depreciation of \$19,379,000 above is accumulated depreciation on buildings and equipment under capital leases of \$1,203,000.

6. LONG TERM DEBT

	1982	1981
(a) 10½% Sinking fund debentures, Series A	\$14,088,000	\$15,000,000
(b) 6¾% Sinking fund debentures, Series A	635,000	635,000
(c) Term bank loans – acquisitions	25,581,000	25,066,000
(d) Term bank loans – capital improvements	1,077,000	1,275,000
(e) Term loans payable – Elks Inc.	4,961,000	5,100,000
(f) Mortgage payable	1,300,000	1,400,000
(g) Notes payable to vendors	427,000	483,000
	<u>48,069,000</u>	<u>48,959,000</u>
Less principal due within one year	<u>3,303,000</u>	<u>5,458,000</u>
	<u>\$44,766,000</u>	<u>\$43,501,000</u>

- (a) The 10½% sinking fund debentures, Series A, mature on June 1, 1997 and require sinking fund payments sufficient to retire \$900,000 principal amount of the Series A debentures on June 1 in each of the years 1983 to 1996 inclusive. The Company has the right, when not in default, to redeem in whole or in part the issued and outstanding Series A debentures under conditions as set out in the Trust Indenture. The Company is restricted from paying cash dividends on shares if such payments exceed consolidated net income earned after January 31, 1977 plus \$7,000,000. The Trust Indenture contains certain asset and earnings tests which govern the issuance of additional funded obligations.
- (b) The 6¾% sinking fund debentures, Series A, maturing April 1, 1987, of Maher Inc., are secured by a first floating charge on the assets of Maher Inc. The more significant of the covenants of the trust deed restrict Maher Inc. from reducing its consolidated working capital below \$1,000,000 and from paying dividends on common shares if such payments would reduce consolidated working capital (which was \$8,092,000 at January, 1982) below \$1,250,000. At January 2, 1982, the Company had a sinking fund credit of \$116,000. The sinking fund payment due in 1983 is \$108,000. The payments required in 1983 and future years average approximately \$125,000 per annum to 1987, the date of maturity.

- (c) The term bank loans were obtained for acquisitions by the wholly owned subsidiary companies, Grafton Group, Inc. and Maher (U.S.) Inc.

These loans are on a revolving basis and require no principal repayments prior to February 6, 1982 at which point they become due. However, the Company has exercised its option prior to the maturity date to convert the revolving term loans to fixed term loans maturing in 1990. The fixed term loans will require equal quarterly principal repayments. The loans bear interest at a fluctuating rate which at the Company's option is determined by London Interbank offer rate or New York prime. The loans are unsecured. However the loan agreements contain certain covenants the more significant of which concern its net worth, debt equity ratio and working capital position.

The term bank loan owing by Maher (U.S.) Inc. matures June 30, 1982 but is renewable at the company's option for a further eight years on the same repayment terms as the loan described above.

- (d) The term bank loans obtained for capital improvements by the Seifert's division of Grafton Group Inc. bear interest at rates ranging from 8% to 21% and are repayable annually at 10% of the original balance borrowed. The term bank loans are unsecured.
- (e) The term loans owing by Elks Inc. are comprised of two separate loans; one in the amount of \$3,500,000 owing to a chartered bank bearing interest at the prime bank rate plus ½% and the other owing to a lender in the amount of \$1,461,000 bearing interest at the prime bank rate plus 2¼% (minimum 10¼%, maximum 13¼%). The bank loan is secured by a first floating charge demand debenture on the property and assets of Elks Inc. and is repayable on February 28, 1983.

The \$1,461,000 loan payable is secured by a \$2,000,000 demand debenture which ranks equally with the bank debenture. This loan is repayable on February 15, 1983.

The agreements with Elks' banker and the other lender contain provisions which, among other things, limit the payment of cash dividends, the incurrence of additional long term debt, capital expenditures and disposal of assets and require Elks to maintain a stated working capital amount of at least \$1,500,000 which was \$1,515,000 at January 31, 1982 and a stated working capital ratio (current assets: current liabilities adjusted to include all amounts payable within twelve months under leases of personal property) of 1.25:1.00, which was 1.28:1.00 at January 31, 1982.

(f) The mortgage payable bears interest at 12½% and is repayable by annual principal instalments of \$100,000 in each of the years 1983-1985 with the balance due in 1986.

Principal repayments within the next five fiscal years on all long term debt of Grafton Group Limited and subsidiary companies are approximately:

1983	\$ 3,303,000
1984	9,426,000
1985	4,634,000
1986	5,513,000
1987	4,547,000
	<u>27,423,000</u>
due beyond five years	20,646,000
	<u>\$48,069,000</u>

7. LEASE COMMITMENTS

(a) Capital Leases

Based upon all capital leases in force at the accounting year ends, the future minimum lease payments under capital leases and the present value of the minimum lease payments owing by all the Company's subsidiaries is as follows:

1983	\$ 1,516,000
1984	1,524,000
1985	1,530,000
1986	1,495,000
1987	1,235,000
Remaining years	<u>6,532,000</u>
Total minimum lease payments	13,832,000
Less: Estimated executory lease costs	<u>356,000</u>
	13,476,000
Less: Amount representing interest at interest rates from 9.7% to 26%	<u>6,361,000</u>
Present value of minimum lease payments	<u>\$ 7,115,000</u>

(b) Operating Leases and Licences

Based upon all signed operating leases and licences at the accounting year ends, the aggregate minimum amount that will be incurred by all the Company's subsidiaries as annual rental or licence expense is as follows:

1983	\$16,269,000
1984	14,567,000
1985	12,471,000
1986	10,246,000
1987	8,750,000
Remaining years	<u>31,454,000</u>
	<u>\$93,757,000</u>

The above amounts do not include percentage rents or other tenant related costs.

8. CAPITAL STOCK

Authorized

2,460,540 Preference shares (1981, 2,478,540)

20,000,000 Class A shares

5,000,000 Common shares

Issued

585,174 Preference shares, Series A
(1981, 603,174)

4,997,072 Class A shares

1,249,268 Common shares

1982

1981

\$11,475,000

\$11,915,000

\$11,475,000

\$11,915,000

The preference shares, Series A, which carry a fixed cumulative dividend rate of \$3 per annum, are redeemable by the Company at rates varying from \$39.00 prior to June 15, 1980, to \$37.50 subsequent to June 15, 1984. The Company has also committed to use its best efforts to purchase for cancellation in the open market at least 4,500 preference shares, Series A on a quarterly basis, at a price not to exceed the redemption price in force at the date of purchase. During the year, the Company purchased 18,000 preference shares for cancellation at a cost of \$440,000 which redemption cost has reduced the capital stock account.

The class A shares are non-voting unless dividends are in arrears and are entitled to receive a 10¢ non-cumulative preferential dividend per annum after which point the common shares are entitled to a dividend equal to 10¢ per share and thereafter, dividends in the year will be paid equally on the class A and common shares.

The common shares are entitled to one vote per share.

9. SEGMENTED INFORMATION (in thousands)

	Total		Domestic		U.S.	
	1982	1981	1982	1981	1982	1981
(a) Geographic Segments						
Sales	\$368,345	\$316,259	\$310,975	\$270,509	\$57,370	\$45,750
Operating profit (loss)	\$ 22,006	\$ 28,669	\$ 22,719	\$ 28,120	\$ (713)	\$ 549
Corporate interest income	4,491	3,094				
Investment income	2,164	4,268				
Equity income	950	1,195				
	29,611	37,226				
Interest expense	4,606	2,415				
Income before income taxes, minority interest and extraordinary item	\$ 25,005	\$ 34,811				
Identifiable assets	\$164,306	\$158,917	\$120,572	\$116,658	\$43,734	\$42,259
Corporate assets	48,003	55,028	43,565	53,316	4,438	\$1,712
Total assets	\$212,309	\$213,945	\$164,137	\$169,974	\$48,172	\$43,971

9. SEGMENTED INFORMATION (in thousands)

	Sales		Capital Expenditures		Identifiable Assets	
	1982	1981	1982	1981	1982	1981
(b) Industry Segments						
Retail						
Apparel	\$280,057	\$235,326	\$ 9,361	\$ 8,934	\$119,640	\$118,410
Footwear	67,608	61,276	2,327	2,632	32,511	28,985
Total retail	347,665	296,602	11,688	11,566	152,151	147,395
Homefurnishings	20,680	19,657	198	236	12,155	11,522
Corporate			87	77	48,003	55,028
	<u>\$368,345</u>	<u>\$316,259</u>	<u>\$11,973</u>	<u>\$11,879</u>	<u>\$212,309</u>	<u>\$213,945</u>
	Operating profit before depreciation and amortization		Depreciation and amortization		Operating profit	
	1982	1981	1982	1981	1982	1981
Industry segments						
Retail						
Apparel	\$22,924	\$26,916	\$4,987	\$3,797	\$17,937	\$23,119
Footwear	4,344	5,423	1,223	1,238	3,121	4,185
Total retail	27,268	32,339	6,210	5,035	21,058	27,304
Homefurnishings	1,112	1,548	164	183	948	1,365
	<u>\$28,380</u>	<u>\$33,887</u>	<u>\$6,374</u>	<u>\$5,218</u>	22,006	28,669
Corporate interest income					4,491	3,094
Investment income					2,164	4,268
Equity income					950	1,195
					<u>29,611</u>	<u>37,226</u>
Interest expense					4,606	2,415
Income before income taxes, minority interest and extraordinary item					<u>\$25,005</u>	<u>\$34,811</u>

10. LICENSED WOOLCO DEPARTMENTS

During the prior year Grafton-Fraser Inc. (GFI) received notification from the F.W. Woolworth Co. Limited (Woolworth) that Woolworth intended to operate directly the men's and boys' wear departments in all Woolco stores in Canada. GFI then entered into negotiations with Woolworth as to the continued operation of the men's and boys' wear departments by GFI or an entity in which GFI maintained an interest, and the sale to Woolworth of a significant interest in GFI's Canadian apparel store operations.

On March 2, 1982 these negotiations were terminated. GFI has informed Woolworth of its desire to negotiate the orderly termination of GFI operations of the licensed departments on a mutually satisfactory basis.

Termination of the existing arrangements under which the departments are operated by GFI will result in significantly reduced earnings of GFI from those which would have been achieved had GFI continued to operate these departments as in the past. The extent of the reduction will depend upon the termination arrangements negotiated with Woolworth.

In 1982, sales for departments operated under the license agreement with Woolco were \$112,300,000 (30.5% of total consolidated sales of the company).

11. RELATED PARTY TRANSACTIONS

During the year the Company purchased merchandise in the amount of \$12,238,000 (1981, \$10,899,000) from Forsyth Trading Company which represented approximately 17.9% (1981, 16.5%) of the sales of Forsyth Trading Company. The Company owns a 1/3 interest in the partnership Forsyth Trading Company and accounts for its investment on the equity method.

12. CONTINGENCIES

An action against the Company, its subsidiary Elks Inc. and G.R. Chater (deceased) has been commenced by a former president of Elks Inc. claiming damages in the aggregate of \$57,000,000 for wrongful dismissal, related matters and defamation. The defendants deny any liability and are defending the action. The former president of Elks Inc. was the vendor to the Company of the 65% interest in Elks Inc. and the Company has commenced an action against this individual for breach of an agreement and for damages for fraud and fraudulent misrepresentation in the amount of \$10,000,000 plus punitive damages.

Auditors' Report

To the Shareholders of
Grafton Group Limited

We have examined the consolidated balance sheet of Grafton Group Limited as at January 31, 1982 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 26, 1982

Thorne Riddell
Chartered Accountants

Grafton Group Limited

January 31,

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
	Omitting \$000's										
Quarterly Statistics											
Sales											
1st Quarter	65,837	49,517	37,129	32,660	28,841	28,297	23,379	15,184	11,867	10,034	8,211
2nd Quarter	83,962	68,097	49,708	44,164	39,407	37,689	32,457	21,800	16,894	14,141	11,764
3rd Quarter	91,111	72,834	58,511	45,212	40,082	36,229	33,671	27,933	15,882	13,847	11,474
4th Quarter	127,435	125,811	95,346	72,219	61,353	52,773	49,741	39,672	26,621	21,577	17,433
Total	368,345	316,259	240,694	194,255	169,683	154,988	139,248	104,589	71,264	59,599	48,882

Operating Income as a percentage of Sales

1st Quarter	6.5	7.0	6.8	7.7	7.8	9.0	9.8	10.4	8.3	6.9	7.0
2nd Quarter	9.2	10.1	10.2	10.0	9.8	9.0	11.3	10.9	10.6	10.0	10.0
3rd Quarter	8.9	11.3	10.7	12.1	11.5	11.0	13.2	9.7	9.0	8.3	7.3
4th Quarter	15.9	18.5	22.2	23.0	19.9	19.0	18.7	16.9	19.9	17.1	15.1
For year	10.9	13.2	14.5	15.0	13.5	12.9	14.2	12.8	13.3	11.7	10.5

Net income before extraordinary item

1st Quarter	592	1,299	1,210	993	832	876	718	633	434	301	189
2nd Quarter	2,372	2,882	2,853	2,320	1,776	1,449	1,576	1,131	808	651	517
3rd Quarter	2,424	3,206	3,068	2,466	1,891	1,499	1,718	804	595	502	361
4th Quarter	8,958	12,701	11,079	9,214	6,513	5,045	4,519	2,612	2,197	1,779	1,192
Total	14,346	20,088	18,210	14,993	11,012	8,869	8,531	5,180	4,034	3,233	2,259

Earnings per Class A and Common Share after giving retroactive effect to the capital reorganization of June 1, 1979

1st Quarter	.02	.13	.12	.08	.06	.07	.04	.03	(.01)	(.03)	(.05)
2nd Quarter	.31	.39	.38	.30	.21	.16	.18	.11	.06	.03	.01
3rd Quarter	.32	.44	.41	.32	.23	.16	.20	.05	.02	.01	(.01)
4th Quarter	1.37	1.96	1.70	1.40	.96	.73	.65	.34	.28	.21	.11
	2.02	2.92	2.61	2.10	1.46	1.12	1.07	.53	.35	.22	.06

Weighted average number of shares outstanding,
Class A and Common
(Omitting 000's)

	6,246	6,246	6,246	6,060	5,749	5,686	5,677	5,669	5,651	5,624	5,561
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STOCK PRICES	Preference Shares		Class A Shares		Common Shares	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
High	\$30.00	\$35.75	\$18.50	\$18.25	\$18.00	\$18.00
Low	\$17.25	\$26.87	\$12.75	\$13.12	\$12.50	\$13.75
Volume of shares traded	51,160	46,198	619,772	718,325	111,902	164,521
Value of shares traded	\$1,268,000	\$1,422,000	\$9,689,000	\$11,028,000	\$1,628,000	\$2,472,000

JANUARY 31

Market price	\$18.50	\$30.00	\$13.00	\$18.25	\$12.50	\$18.00
Price earnings multiple			6.19X	6.25X	6.19X	6.16X
Annual dividend coverage	8.1X	10.9X				
Yield	16.2%	10.0%	4.15%	2.63%	4.32%	2.67%
Number of shareholders	560	624	675	794	650	717

Number of Full Time Employees 3,350 3,175

VALUATION DAY SHARE PRICES: For capital gains purposes, some shareholders may need to know the value of their shares on Valuation Day. The December 22, 1971, Valuation Day value, as established by Revenue Canada is \$13.08 for Grafton Group Limited preference shares, \$5.61 for class A shares and common shares, and \$7.50 for Maher Inc. preference shares.

	1982	1981	1980	1979
TOTAL SALES	368,345	316,259	240,694	194,255
Retail Divisions				
Apparel				
Canada				
Stores	118,407	82,585	53,135	43,183
Licensed Woolco Departments	112,300	112,760	103,700	95,687
	230,707	195,345	156,835	138,870
United States	49,350	39,981	17,500	
	280,057	235,326	174,335	138,870
Footwear				
Canada	59,588	55,507	48,603	41,231
United States	8,020	5,769	1,199	
	67,608	61,276	49,802	41,231
	347,665	296,602	224,137	180,101
Homefurnishings Division	20,680	19,657	16,557	14,154
Cost of sales and expenses other than undernoted	299,774	250,719	186,727	148,881
Rentals and license expense	28,259	23,697	18,997	16,241
	328,033	274,416	205,724	165,122
Income from operations before the following	40,312	41,843	34,970	29,133
Percent to sales	10.9	13.2	14.5	15.0
Interest income	526	697	390	558
Income from investments	3,114	5,463	2,924	1,427
Income before taking into account the undernoted items	43,952	48,003	38,284	31,118
Depreciation	6,502	4,630	2,994	2,007
Interest on long term debt	8,438	5,832	3,138	1,805
Other interest	3,151	2,353		
Foreign exchange loss (gain)	101	(338)	38	
Amortization of goodwill	755	715	299	142
	18,947	13,192	6,469	3,954
Income before the undernoted	25,005	34,811	31,815	27,164
Income taxes	10,957	14,630	13,511	12,077
Income before undernoted items	14,048	20,181	18,304	15,087
Minority interest	298	93	94	94
INCOME BEFORE EXTRAORDINARY ITEM	14,346	20,088	18,210	14,993
Extraordinary item	5,398			
NET INCOME FOR THE YEAR	8,948	20,088	18,210	14,993
Earnings per class A and common share before extraordinary item	2.02	2.92	2.61	2.10
Dividends (regular) per class A and common share	.54	.46	.39	.38
Special dividend from Capital Surplus				.25
Dividend (regular) percentage of earnings before extraordinary item	35.9	23.4	18.5	15.2
Total dividend percentage of earnings before extraordinary item	35.9	23.4	18.5	25.6
Weighted average number of class A and common shares outstanding	6,246,340	6,246,340	6,246,340	6,060,304
Effective tax rate percentage	43.8	42.0	42.5	44.5
Rentals as a percentage of sales	7.7	7.5	7.9	8.4

Comparative data relating to class A and common shares has been restated to reflect the June 1, 1979 capital reorganization.

January 31

1978	1977	1976	1975	1974	1973	1972	1971
	Omitting \$000's						
169,683	154,988	139,248	104,589	71,263	59,599	48,882	42,004
36,456	32,177	28,771	21,915	19,213	16,286	14,704	13,136
86,460	79,762	69,971	56,931	46,505	38,129	29,576	24,759
122,916	111,939	98,742	78,846	65,718	54,415	44,280	37,895
122,916	111,939	98,742	78,846	65,718	54,415	44,280	37,895
34,165	31,553	29,359	15,285				
34,165	31,553	29,359	15,285				
157,081	143,492	128,101	94,131	65,718	54,415	44,280	37,895
12,602	11,496	11,147	10,458	5,545	5,184	4,602	4,109
132,338	121,903	107,981	82,810	55,798	47,708	39,790	34,396
14,380	13,150	11,541	8,390	5,984	4,943	3,951	3,353
146,718	135,053	119,522	91,200	61,782	52,651	43,741	37,749
22,965	19,935	19,726	13,389	9,481	6,948	5,141	4,255
13.5	12.9	14.2	12.8	13.3	11.7	10.5	10.1
916	580	611	182	(87)			
23,881	20,515	20,337	13,571	9,394	6,948	5,141	4,255
1,728	1,516	1,320	945	567	393	267	196
1,701	1,018	1,144	764	172	112		
83	783	676	781	275	101	119	356
142	142	142	71				
3,654	3,459	3,282	2,561	1,014	606	386	552
20,227	17,056	17,055	11,010	8,380	6,342	4,755	3,703
9,121	8,093	8,427	5,763	4,310	3,067	2,445	2,009
11,106	8,963	8,628	5,247	4,070	3,275	2,310	1,694
94	94	97	67	36	42	51	56
11,012	8,869	8,531	5,180	4,034	3,233	2,259	1,638
246							
11,258	8,869	8,531	5,180	4,034	3,233	2,259	1,638
1.46	1.12	1.07	.53	.35	.22	.06	(.04)
.34	.24	.20	.17	.14	.11	.07	.02
17.1	15.2	13.3	18.6	19.6	18.9	16.4	5.0
17.1	15.2	13.3	18.6	19.6	18.9	16.4	5.0
5,748,708	5,686,256	5,676,780	5,669,234	5,650,800	5,624,100	5,561,000	4,924,488
45.1	47.4	49.4	52.3	51.4	48.4	51.4	54.3
8.6	8.5	8.3	8.0	8.4	8.3	8.1	8.0

ASSETS				
	1982	1981	1980	1979
CURRENT ASSETS				
Cash and bank deposit receipts	26,892	31,197	24,530	30,638
Marketable securities at lower of cost and market	28,687	30,414	35,568	8,629
Accounts receivable	14,180	13,156	11,398	6,257
Inventories	64,772	57,960	45,005	32,583
Deposits and prepaid expenses	1,450	1,470	694	669
Deferred income taxes	1,615	1,579	1,230	
	137,596	135,776	118,425	78,776
INVESTMENT AND OTHER RECEIVABLES	11,649	13,498	10,427	6,477
FIXED ASSETS, AT COST				
Land	3,408	1,385	1,348	1,348
Buildings	8,859	8,642	6,124	3,461
Equipment, fixtures and leaseholds	51,447	40,985	26,108	18,825
	63,714	51,012	33,580	23,634
Less accumulated depreciation	19,379	15,103	12,080	10,182
	44,335	35,909	21,500	13,452
UNAMORTIZED FINANCING COSTS	252	283	314	345
GOODWILL, less amortization	18,477	20,785	19,412	5,005
EXCESS OF COST OF SHARES OVER NET BOOK VALUE OF ASSETS ACQUIRED		7,694		
	212,309	213,945	170,078	104,055
LIABILITIES				
CURRENT LIABILITIES				
Bank advances	1,482	6,605		
Accounts payable and accrued liabilities	49,763	43,437	31,610	18,208
Income and other taxes payable	10,438	14,338	16,674	7,971
Current portion of long term debt	3,303	5,458	291	
Current portion of obligations under capital leases	590	518	91	
	65,576	70,356	48,666	26,179
LONG TERM DEBT	44,766	43,501	41,853	15,900
LONG TERM OBLIGATIONS UNDER CAPITAL LEASES	6,525	6,977	2,590	
DEFERRED INCOME TAXES	1,192	1,714	976	806
MINORITY SHAREHOLDERS				
Interest in Subsidiary Companies	1,613	2,120	1,413	1,413
CAPITAL STOCK, issued	11,475	11,915	12,598	12,612
RETAINED EARNINGS	81,162	77,362	61,982	47,145
	92,637	89,277	74,580	59,757
	212,309	213,945	170,078	104,055
WORKING CAPITAL	72,020	65,420	69,759	52,597
Working capital ratio	2.1:1	1.9:1	2.4:1	3.0:1
Long term debt to equity ratio	.48:1	.49:1	.56:1	.27:1
Accounts payable to inventory ratio	.77:1	.75:1	.70:1	.56:1
Return on shareholders' equity (year end)	15.5	22.5	24.4	25.1
Inventory turnover – total	5.7	5.5	5.4	6.0
– retail	6.0	5.7	5.6	6.3

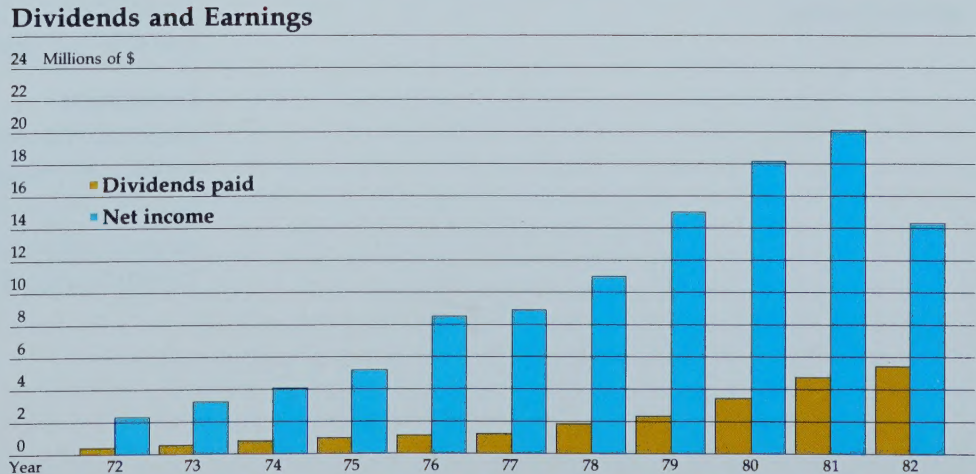
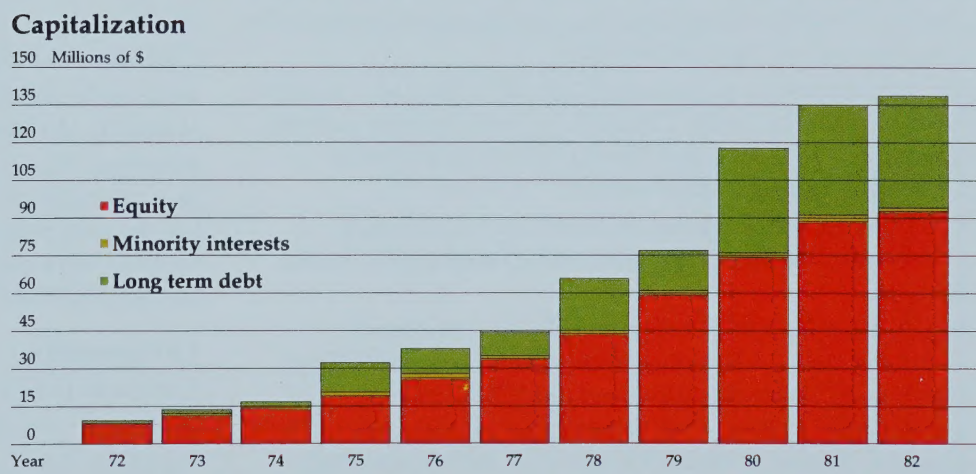
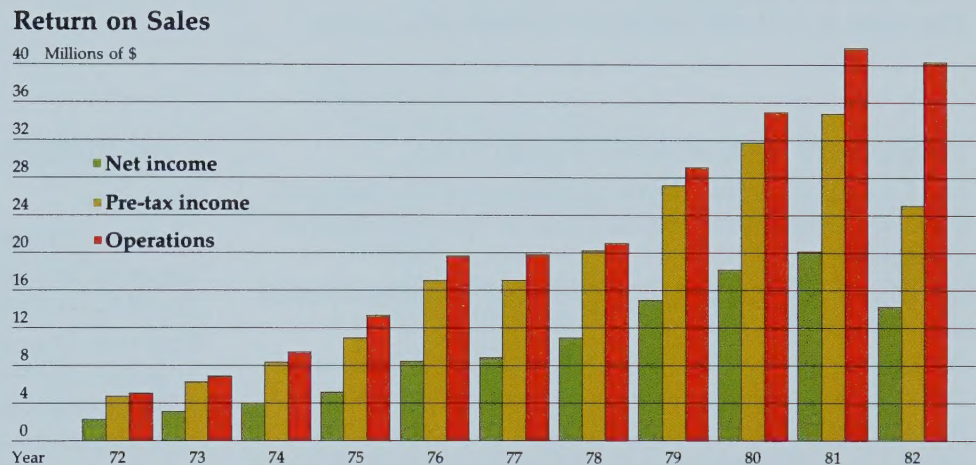
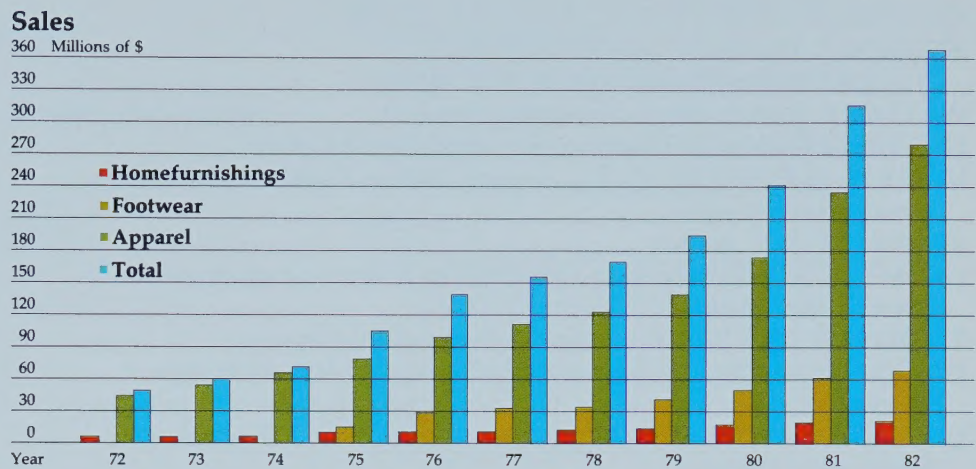
January 31							
1978	1977	1976	1975	1974	1973	1972	1971
	Omitting \$000's						
25,209	10,111	8,391	3,112	2,280	2,444	2,079	14
2,251		225	225	214	355	230	
5,199	4,185	4,445	4,192	3,071	2,676	2,051	1,878
28,929	27,585	24,545	23,791	11,440	8,601	6,519	5,845
265	313	416	238	168	282	584	100
61,853	42,194	38,022	31,558	17,173	14,358	11,463	7,837
6,167	3,724	3,022	2,447	3,016	1,013	874	797
1,348	1,348	1,348	1,348	1,390	1,390	413	
3,065	3,025	2,930	2,722	2,754	2,949	668	
16,336	14,739	12,902	11,814	4,803	3,979	3,759	3,178
20,749	19,112	17,180	15,884	8,947	8,318	4,840	3,178
8,702	7,952	6,666	5,880	3,148	2,925	2,619	1,920
12,047	11,160	10,514	10,004	5,799	5,393	2,221	1,258
376							
5,147	5,289	5,431	5,573				
85,590	62,367	56,989	49,582	25,988	20,764	14,558	9,892
15,866	11,209	13,676	4,364 8,278	5,741	6,106	4,001	275 3,098
3,118	4,831	3,296	3,793	3,392	965	671	1,071
	1,152	1,202	412	107	147	740	
18,984	17,192	18,174	16,847	9,240	7,218	5,412	4,444
21,017	9,395	10,679	11,936	1,628	1,720		190
533	476	442	355	79	73	41	37
1,413	1,413	1,413	1,631	479	662	788	907
7,650	7,336	7,299	7,227	7,193	6,965	6,833	4,673
35,993	26,505	18,982	11,586	7,369	4,126	1,484	(359)
43,643	33,891	26,281	18,813	14,562	11,091	8,317	4,314
85,590	62,367	56,989	49,582	25,988	20,764	14,558	9,892
42,869	25,002	19,848	14,711	7,933	7,140	6,051	3,393
3.3:1	2.5:1	2.1:1	1.9:1	1.9:1	2.0:1	2.1:1	1.8:1
.48:1	.28:1	.41:1	.63:1	.11:1	.16:1		.04:1
.55:1	.41:1	.56:1	.35:1	.50:1	.71:1	.61:1	.53:1
25.8	26.2	32.4	27.5	27.7	29.1	27.2	38.0
5.9	5.6	5.7	4.4	6.2	6.9	7.5	7.2
6.2	5.9	5.9	4.6	6.5	7.2	7.9	7.5

Grafton Group Limited		January 31,										
		1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
NUMBER OF BRANCHES												
Apparel Division												
Canada												
Licensed Woolco Departments		119	113	105	100	93	86	79	72	67	56	47
Company Stores		410	362	203	165	150	129	123	109	94	72	65
(Including Elks in 1981)		529	475	308	265	243	215	202	181	161	128	112
United States		80	67	51								
		609	542	359	265	243	215	202	181	161	128	112
Footwear Division												
Canada		229	214	195	183	176	196	203	217			
United States		25	17	13								
		254	231	208	183	176	196	203	217			
Total		863	773	567	448	419	411	405	398	161	128	112
BRANCHES OPENED OR ACQUIRED												
Apparel Division												
Canada		67	168	43	28	32	20	23	23	35	20	16
United States		13	16	51								
Footwear Division												
Canada		20	26	17	21	15	3	14	234			
United States		8	4	13								
		108	214	124	49	47	23	37	257	35	20	16
BRANCHES CLOSED OR COMBINED												
Apparel Division		13	1	—	6	4	7	2	3	2	4	2
Footwear Division		5	7	5	14	35	10	28	17			
Total		18	8	5	20	39	17	30	20	2	4	2
STORE SPACE AT YEAR END, omitting 000's												
Canada												
Apparel Division		1,894	1,807	1,298	1,192	1,134	1,070	1,005	912	850	718	633
Footwear Division		425	406	378	369	353	351	364	398			
SALES PER SQUARE FOOT BASED ON YEAR END SPACE												
Apparel Division												
Canada												
Licensed Woolco Departments		120.7	127.4	124.4	119.2	112.6	109.1	103.8	92.7	81.6	80.6	73.4
Company Stores		123.3	116.4	115.3	110.8	99.6	94.9	86.9	73.5	68.6	66.5	63.9
(Including Elks in 1981)												
Footwear Division												
Canada		140.1	136.7	128.6	111.7	96.8	88.7	79.6	67.8			

SALES BY REGION
CANADA

	APPAREL DIVISION								FOOTWEAR DIVISION			
	Leased Woolco Depts.				Company Stores							
	No. of Stores	% of Sales	No. of Stores	% of Sales	No. of Stores	% of Sales	No. of Stores	% of Sales	No. of Stores	% of Sales	No. of Stores	% of Sales
	1982		1981		1982		1981		1982		1981	
British Columbia	10	7.6	10	7.2	29	5.2	27	5.5	58	19.5	54	19.2
Alberta	12	14.0	10	13.5	50	9.0	33	7.3	17	6.1	11	4.6
Saskatchewan and Manitoba	13	12.8	13	13.3	33	6.5	29	6.4	14	4.8	12	3.7
Ontario	45	33.4	42	33.7	223	63.8	210	64.9	111	56.8	111	59.9
Quebec	26	20.1	26	21.1	24	6.5	21	7.5	8	4.9	8	5.0
Maritimes	13	12.1	12	11.2	51	9.0	42	8.4	21	7.9	18	7.6
	119	100.0	113	100.0	410	100.0	362	100.0	229	100.0	214	100.0

- 1. **Sales** – The sales graph, by divisions, shows that one year, five year and ten year compound growth rates are 16%, 19% and 23%.
- 2. **Operating, Pre-Tax Income and Net Income** – The one year, five year and ten year compound increases in net income are (29%), 10% and 20% respectively.
- 3. **Capitalization** – The graph illustrates that Shareholders' Equity has increased at a compound rate of 22% over the past five years.
- 4. **Dividends and Earnings** – The graph indicates that total dividends paid has increased at a 31% compound rate over the last five years while the rate of earnings is 10%.



	Year Elected	Residence
CHARLES A. CADIEUX, C.M., K.G.C.H.S., Retired	1974	Toronto, Ontario
WILLIAM A. HEASLIP, Chairman of the Board, President and Chief Executive Officer, the Company	1961	Toronto, Ontario
WILLIAM F. JAMES, PH.D., Consulting Geologist	1967	Toronto, Ontario
H. JOHN McDONALD, Chairman, Black & McDonald Limited	1982	Toronto, Ontario
JAMES W. McCUTCHEON, Q.C., Partner, Shibley, Righton & McCutcheon, Barristers and Solicitors	1967	Toronto, Ontario
STEWART PHILP, Retired	1967	Hamilton, Ontario
GEORGE A. REYNOLDS, C.A., Vice President Finance, Secretary and Treasurer, the Company	1972	Thornhill, Ontario
T. EDWARD TOPPING, Executive Vice President, the Company	1967	Stouffville, Ontario
DAVID B. WELDON, Chairman of the Board, Midland Doherty Limited, Investment Dealers	1967	Toronto, Ontario
DOUGLAS C. WOOLLEY, Q.C., Partner, Woolley, Dale & Dingwall, Barristers and Solicitors	1961	Halton Hills, Ontario
THOMAS R. YOUNG, President, Toby Industries Limited	1969	Goodwood, Ontario

CORPORATE AFFILIATION OF DIRECTORS

Mr. Cadieux is a retired Director and Executive Vice President, F.W. Woolworth Co. Limited and a Director of several Canadian Companies.

Mr. Heaslip is a Director of Guaranty Trust Company of Canada and of Traders Group Limited.

Dr. James is a Director of Campbell Red Lake Mines Limited, Dome Mines Limited, Falconbridge Dominicana C. por A., Falconbridge Nickel Mines Limited, Giant Yellowknife Mines Limited, Lolor Mines Limited, Templeton Growth Fund of Canada Limited, Templeton World Fund Inc., and Director Emeritus of the Canadian Imperial Bank of Commerce.

Mr. McCutcheon is a Director of CAE Industries Ltd., Canadian General Insurance Group, Canadian General Securities, Limited, Guaranty Trust Company of Canada, Kerr Addison Mines Limited and Traders Group Limited.

Mr. Topping is a Director of the Retail Council of Canada, St. Lawrence Foods and a Governor of the Toronto East General Hospital.

Mr. Weldon is a Vice President and Director of Goderich Elevators Limited, a Director of Emco Limited, Guaranty Trust Company of Canada and Silverwood Industries Limited.

Mr. Woolley is a Director of Leonard Pipeland Contractors Ltd., Koss Ltd., Russell H. Morin Products Ltd. and Network Data Systems Limited.

Committees

Executive

Chairman: William A. Heaslip

James W. McCutcheon, Stewart Philp, George A. Reynolds, David B. Weldon

Function: During intervals between meetings of the Board of Directors, the Executive Committee has all the powers of the Board, except those powers that are required by legislation or Company by-law to be exercised by the Board itself.

Audit

Chairman: David B. Weldon

William A. Heaslip, William F. James, James W. McCutcheon, George A. Reynolds.

Function: The Audit Committee reviews financial information intended for publication, and the adequacy thereof, before such information is submitted to the Board. It also reviews, on a continuing basis, control procedures in effect throughout the Company.

Compensation

Chairman: James W. McCutcheon

William A. Heaslip, David B. Weldon

Function: The Compensation Committee reviews man-power planning, the performance of management personnel and sets and approves executive compensation.

Investment

Chairman: David B. Weldon

William A. Heaslip, George A. Reynolds

Function: The Investment Committee reviews and makes recommendations with respect to the Company's investment portfolio.

Officers and Executives

GRAFTON GROUP LIMITED

W.A. Heaslip, *Chairman of the Board and President*

T.E. Topping, *Executive Vice President*

G.A. Reynolds, C.A., *Vice President Finance, Secretary and Treasurer*

GRAFTON-FRASER INC.

W.A. Heaslip, *Chairman and Chief Executive Officer*

A.L. Lucas, *President*

J.B. Coutts, *Senior Vice President*

E.C. Frederick, *Senior Vice President*

G.A. Reynolds, C.A., *Senior Vice President*

W.J. Smith, *Vice President*

J.R. Walker, *Vice President*

N.E. Phillips, C.A., *Chief Financial Officer*

H.M. Sanders, *Public Relations Administrator*

MAHER INC.

W.A. Heaslip, *Chairman of the Board*

T.P. Wilson, *President*

J.R. Gillies, C.A., *Senior Vice President Finance*

D.M. Kerr, *Senior Vice President Operations*

G.A. Reynolds, C.A., *Secretary*

R.C. Jankelow, C.A., *Controller*

SEIFERT'S

J.F. Seifert, *President and Chief Executive Officer*

R.E. Vanderlinden, *Executive Vice President and Treasurer*

E. Meeker, *Secretary*

B. Pacha, *Vice President*

J.C. Arthaud, *Vice President*

S. O'Toole, *Vice President*

D.C. Brown, *Vice President*

ELKS INC.

W.A. Heaslip, *Chairman and President*

A.L. Lucas, *Vice President and Chief Operating Officer*

J.B. Coutts, *Vice President*

E.C. Frederick, *Vice President*

G.A. Reynolds, C.A., *Secretary*

R. Swift, C.A., *Chief Financial Officer*

TOBY INDUSTRIES LIMITED

T.R. Young, *President*

A.M. Pearson, *Vice President*

K.S. Greeniaus, R.I.A., *Controller*

OAK-BAY CORPORATION

W. Boettge, *President*

TRANSFER AGENTS AND REGISTRARS

Grafton Group Limited

10½% Sinking Fund Debentures, Series A

The Royal Trust Company

Preference, Class A and Common Shares

Guaranty Trust Company of Canada

Maher Inc.

6¾% Sinking Fund Debentures, Series A

Canada Permanent Trust Company

Preference Shares

The Canada Trust Company

Elks Inc.

Common Shares

The Royal Trust Company

AUDITORS

Thorne Riddell, Toronto

PRINCIPAL BANKERS

Canada

Canadian Imperial Bank of Commerce, Toronto

The Royal Bank of Canada, Toronto

Bank of Nova Scotia, Toronto

United States

Merchants National Bank, Cedar Rapids, Iowa

STOCK EXCHANGE LISTINGS

Grafton Group Limited

The Toronto Stock Exchange

Maher Inc. Preference Shares

The Toronto Stock Exchange

Elks Inc.

The Toronto Stock Exchange

Grafton Group Limited

CANADA - 758 STORES

Alberta - 79

Calgary (27)
Edmonton (29)
Lethbridge (6)
Lloydminster (3)
Medicine Hat (3)
Red Deer (6)
St. Albert (4)
Wetaskiwin

British Columbia - 97

Abbotsford (2)
Campbell River
Chilliwack (3)
Clearbrook (4)
Coquitlam (3)
Courtenay (2)
Cranbrook (4)
Delta
Duncan
Ft. St. John
Grand Forks
Kamloops (6)
Kelowna
Langley (2)
Mission
Nanaimo (10)
Nelson
Penticton (3)
Port Alberni
Port Coquitlam (3)
Prince George (5)
Quesnel (3)
Smithers
Terrace
Trail (3)
Vancouver (25)
Victoria (3)
White Rock
Williams Lake (2)
Richmond (2)

Manitoba - 35

Brandon (3)
Portage La Prairie (3)
Thompson (2)
Winnipeg (27)

New Brunswick - 34

Bathurst (5)
Campbellton (2)
Chatham
Dieppe (2)
Douglstown (2)
Edmunston (2)
Fredericton (8)
Moncton (5)
Saint John (7)

Newfoundland - 11

Carbonear (2)
St. John's (9)

Nova Scotia - 39

Amherst (2)
Halifax (20)
New Glasgow (4)
Port Hawkesbury (3)
Sydney (9)
Truro

Prince Edward Island - 1

Charlottetown

Ontario - 379

Ajax (2)
Barrie (5)
Belleville (7)
Bowmanville
Brampton (4)
Brantford (8)
Brockville
Burlington (9)
Cambridge
Chatham (6)
Cornwall (5)
Dundas
Elliott Lake
Guelph (4)
Hamilton (18)
Hanmer
Huntsville
Kapuskasing
Kitchener (12)
Kingston (5)
London (18)
Malton (2)
Milton (3)
New Liskeard (2)
Newmarket (6)
Niagara Falls (7)
North Bay (9)
Oakville (4)
Orangeville (4)
Oshawa (6)
Ottawa (16)
Owen Sound (4)

Pembroke

Peterborough (5)
Picton
Renfrew
Sarnia (5)
Sault Ste. Marie
St. Catharines (6)
St. Thomas (2)
Stoney Creek (5)
Stratford
Sudbury (11)
Tillsonburg (3)
Timmins (5)
Thunder Bay (4)
Toronto (123)
Trenton
Waterloo (7)
Welland (4)
Whitby
Windsor (15)
Woodstock (3)

Quebec - 58

Alma
Hauterive
Cap-de-la Madeleine
Chicoutimi (3)
Drummondville
Granby
Hull (4)
Joliette
Jonquière
Lévis (2)
Montréal (31)
Québec City (4)
Sept-Îles
Sherbrooke (3)
St-Jean
Trois-Rivières
Valleyfield

Saskatchewan - 25

Moose Jaw (3)
Prince Albert (2)
Regina (11)
Saskatoon (5)
Weyburn (2)
Yorkton (2)

UNITED STATES - 105 STORES

Colorado - 1

Grand Junction

Illinois - 3

Chicago
Galesburg
Moline

Indiana - 2

Evansville (2)

Iowa - 38

Ames
Atlantic
Cedar Falls
Cedar Rapids (5)
Council Bluffs
Davenport (3)
Decorah
Des Moines (9)
Fort Dodge
Dubuque
Fairfield
Iowa (2)
Iowa Falls
Marshalltown (2)
Mason City
Mt. Pleasant
Oskaloosa
Ottumwa
Sioux City
Washington
Waterloo
West Burlington

Kansas - 9

Hutchinson
Lawrence
Manhattan
Overland Park
Salina
Topeka (2)
Wichita (2)

Michigan - 5

Grand Rapids
Kalamazoo (2)
Saginaw (2)

Minnesota - 7

Brooklyn Centre
Burnsville
Duluth (2)
Edina
St. Cloud
St. Paul

Missouri - 4

Cape Girardeau
Jefferson City
Kansas City (2)

Nebraska - 4

Grand Island
Lincoln
Norfolk
Omaha

North Dakota - 4

Bismarck
 Fargo
Grand Forks
Minot

Oklahoma - 3

Norman
Oklahoma City
Tulsa

South Dakota - 1

Sioux Falls

Wisconsin - 23

Appleton
Eau Claire
Fond du Lac
Green Bay
La Crosse
Madison (6)
Marinette
Marshfield
Milwaukee
Oshkosh
Rice Lake
Sheboygan
Stevens Point
Wausau (4)
Wisconsin Rapids

Wyoming - 1

Cheyenne